EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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PROTECTIONISM

Brussels gets tough on state subsidies

Page 6

World News

Salvadorean army attack slows rebel offensive

The week-long FMLN guerrilla offensive in El Salvador began running out of steam over the weekend under sustained counter-attacks by the armed forces.

Heavy fighting continued in the capital San Salvador and in San Miguel, as well as in several smaller towns around the country. Page 28

Lula boost in Brazil

Luis Inacio Lula da Silva, the most radical of the main candidates in Brazil's presidential election, looks certain to go forward to the run-off on December 17. Page 4

Greek cabinet effort

Political leaders in Greece are to make a last effort today to form a government of national unity as they seek to avert another election next month and end political deadlock resulting from the inconclusive November 5 poll. Page 6

EC telecoms drive

France has launched a diplomatic drive to resolve a deadlock over an ambitious European Commission plan to boost free competition in the Ecu75bn ($70bn) EC market for telecommunications services from 1993. Page 6

Aquino faces defeat

Moslems and Christians appeared to have rejected an autonomy plan for the southern Philippines. The result would mark the first electoral defeat for President Corazon Aquino since she won power in 1986.

ANC-US meeting

The State Department said US officials have met the chief representative of the new Washington office of the African National Congress, the South African nationalist movement banned by Pretoria.

LDP setback

A pro-Socialist candidate defeated his rival from Japan's ruling Liberal Democratic Party in a mayoral election. The result dented Prime Minister Toshiki Kaifu's LDP after it had fought its way back after a series of scandals and an unpopular sales tax.

IRA admits bombs

The Irish Republican Army admitted killing three British paratroops in Northern Ireland and blowing the legs off a British soldier in England with a car bomb. Page 8

Salang Pass open

Soviet-backed Afghan authorities said they had cleared another rebel blockade of a key highway to the Soviet border and reopened the Salang Pass.

Moldavian advance

Pyotr Luchinsky, new leader of the Soviet republic of Moldavia took a first step towards reconciliation with the Popular Front, the nationalist group that campaigned for removal of his predecessor. Page 4

Turkey warns US

Turkey has warned the US that it will undermine its military interests if the US Senate passes a bill saying Armenians were once victims of Turkish genocide. Turkey, a Nato member, has cut back training flights at US air bases and halted visits by US warships.

Ethiopia battles

Fresh battles in northern Ethiopia have eclipsed peace talks between the Marxist government and separatist rebels opening in Nairobi today.

Soviet gas blast

An explosion has damaged 40 km (25 miles) of gas pipeline near the northern Siberian city of Norilsk, the government newspaper Izvestia said. Sub-zero temperatures were reported as the cause of a crack in the line.

Prince on business

Britain's Prince of Wales discusses the values of "good corporate citizenship" and the importance of business to the future of Britain and its people in a special contribution to today's Financial Times. Page 23

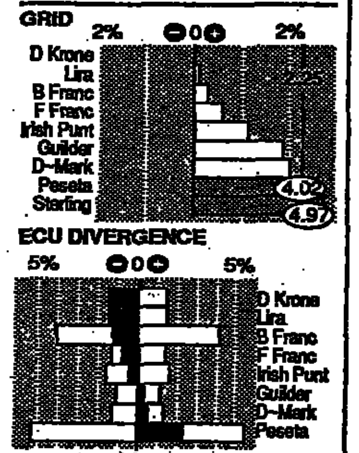
Business Summary

China to shut many of its Hong Kong companies

CHINA plans to close many of its companies operating in Hong Kong during the next few months, especially those involved in property and the stock market. It announced that it also intends to try to stop any new enterprises opening. Page 4

EUROPEAN Monetary System: A rally by the D-Mark threatened to cause strains within the EMS. Events in East Germany caused the D-Mark to fall, but then recover strongly as the market reassessed the impact on the West German economy. Weaker members of the system – the Danish krone and Italian lira – came under renewed pressure, but finished the week well within their cross rate limits, helped by pre-weekend profit-taking in the D-Mark.

EMS November 17, 1989



The chart shows the two constraints on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU), a basket of European currencies. Calculations based on Monday-Thursday data. Friday data not available.

QUINTEX: bank lenders to the Australian television and resorts group are expected to decide today whether to put the group into receivership or even provisional liquidation. Page 27

EURO Disneyland, US leisure group, plans to follow this month's successful flotation in Paris and Brussels by building a second theme park outside Paris to open in 1995 and requiring several billion francs of extra investment. Page 27

BOUYGUES, French construction group, spent FFr727.8m ($116.2m) buying a 3.08 per cent stake in Navigation Mixte, French food-to-financial services conglomerate, taking to 3.88 per cent Bouygues's stake in the group which came under takeover attack last month from Paribas, the investment bank. Page 27.

LOCKHEED, US defence aerospace group, said it will take a fourth quarter charge of about $300m because it had miscalculated development costs of an anti-submarine aircraft. Page 27

DOMINION International, financial services and property company, shares of which have been suspended for almost two months, said it had not asked the UK Serious Fraud Office to investigate its affairs, but did not rule out doing so after future was secured. Page 29

POLICYMAKING Federal Open Market Committee delayed cutting US interest rates last month because it did not want to appear to be trying to force the dollar lower in foreign exchange markets. Page 4

REDLAND, British building materials group, is to issue $150m in variable dividend dollar-denominated preference shares. It joins BET as a rare UK entrant to this $25bn US market. Page 29

AGREEMENT which ended dispute between Sony and Warner Bros over which gets the services of film producers Jon Peters and Peter Guber is being billed as the greatest settlement of a breach-of-contract suit since the $3bn Texaco paid to a rival oil company, Pennzoil, in 1988. Page 27

TSB BANK, the sixth-largest UK bank, is expected to announce wide-ranging plans to restructure its retail banking operations. The restructuring is likely to involve the loss of several jobs. Page 10

THE TWELVE DISPLAY REMARKABLE UNITY OVER CONDITIONS FOR COMMUNITY ASSISTANCE

EC pledges aid to nations embracing democracy

By Ian Davidson, Robert Mauthner, and David Buchan in Paris

THE twelve leaders of the European Community have enthusiastically endorsed political reform in Eastern Europe and promised substantial economic aid to those East European countries which embrace democracy.

"We are ready to co-operate by all available means in creating healthier economies in exchange for a proven return to democracy, respect for human rights and the organisation everywhere of free elections," said President François Mitterrand of France who had convened the special weekend summit.

The meeting, which took place over dinner at the Elysée Palace, showed remarkable unity between the 12 heads of state and government over the necessary political conditions for Community help for reform in East Europe, and a keen sense of the historic importance of this summit.

"We all felt the sense of history of what is happening in Europe," said Mrs Margaret Thatcher, Britain's Prime Minister. "We are very much aware of the responsibilities which rest upon us that this movement towards democracy should succeed."

In this respect, the meeting provided a sharp contrast with current disputes between member governments over the future internal development of the Community, notably between Mrs Thatcher and her 11 opposite numbers. These disagreements, which centre on the project for economic and monetary union known as the Delors Plan, were not discussed at the meeting, but are bound to come to the fore again at next month's regular EC summit in Strasbourg.

Chancellor Helmut Kohl of West Germany was inevitably the centre of interest at the summit because of his country's pivotal role at the frontier of Western and Eastern Europe. He went out of his way to reassure his colleagues that West Germany was not being distracted by events in Eastern Europe and East Germany from its strong commitment to Western European integration in the European Community.

This was a absolute national priority for West Germany, he said, and there was no alternative.

Saturday's discussions on Eastern Europe focused primarily on Poland and Hungary which have advanced furthest down the reform road and are due to get a total of $2bn in short-term Western aid.

The Community leaders called on the International Monetary Fund to reach agreement with Poland and Hungary on terms for standby credits and economic restructuring by the end of this year. Chancellor Kohl said: "We are under enormous time pressure if the reforms are going to succeed. The Poles and Hungarians need our support now."

The Community leaders were careful to avoid saying anything that could upset the Soviet Union or appear to question the geo-strategic balance between East and West. There was no discussion of German re-unification, Mr Mitterrand said afterwards.

"The question of borders is not on the agenda – they should stay as they are, and all military matters should continue to be conducted through Nato and the Warsaw Pact," Mrs Thatcher said. "This arrangement has suited us all very well, and at a time of great change it is necessary to keep this background of security and stability."

The leaders stressed that events in Eastern Europe were of particular importance to Western Europe, and underlined the significance of the timing of the meeting, coming as it did just before the superpower summit between President George Bush and President Mikhail Gorbachev off Malta at the beginning of next month. They said it would have been inappropriate if Europe had been left out of the first substantial Western discussions of the implications of the opening of the Berlin Wall and moves towards political liberalisation in several East European countries.

Continued on Page 24

Prospects for Western aid, Page 2

THE EC SUMMIT OUTCOME

- Democracy in eastern Europe was named as a pre-condition for European Community economic aid.
- The International Monetary Fund was urged to conclude negotiations with Hungary and Poland by the end of the year. Such an agreement would be a pre-requisite for all western aid.
- German re-unification was not discussed.
- French proposals for the creation of an East European Development Bank are to be studied by the Community.

Reform rallies sweep E Europe

By Leslie Colitt in Berlin and Judy Dempsey in Sofia

MORE than 30,000 demonstrators calling for Czechoslovakia's Communist leadership to step down confronted security forces in Prague yesterday for the third evening in a row after a weekend which also saw huge pro-reform rallies in Sofia and throughout East Germany.

Paramilitary police sealed off the bridges leading to Prague Castle, seat of the Government, as the hardline leadership faced its biggest challenge since coming to power in the wake of the 1968 Soviet invasion.

There was a confused series of allegations of possible deaths at the hands of riot police on Friday, with the human rights group Charter 77 saying at one point that four people had been killed and the authorities insisting there had been no deaths.

A prominent Charter 77 member, Mr Jiri Dienstbier, said riot police behaviour of recent days was the most "brutal and senseless" seen in Czechoslovakia since the Communist takeover in 1948.

The biggest demonstration in East Germany yesterday was in Dresden where 50,000 people called for the punishment of the discredited leadership that was toppled a month ago. Protest marches also took place in at least seven other towns.

The Dresden marchers voiced solidarity with the protesters of Czechoslovakia and also with the people of Romania where a party congress opening today was expected to bring little change.

In interviews published in the Chinese People's Daily and by the Cuban news agency, President Nicolae Ceausescu of Romania called the international situation "grim and complex" and appealed to the Chinese Communist Party for "initiatives which would benefit the development of socialism."

The appeals, which appeared at the weekend, are a clear indication that the Romanian leadership has had to look beyon Europe to find allies to support its Stalinist regime.

In Sofia, the new leadership did not interfere as supporters of several small independent groups gathered yesterday in the city centre, and tried without success to hammer out a common platform.

Party of disillusioned, Page 3; Battle lines drawn, Page 22

Gandhi's party 'will lose half' of its seats in Parliament

By David Housego in New Delhi

PRIME Minister Rajiv Gandhi's ruling Congress Party will emerge from this week's general election with less than half the parliamentary seats it won in the last election, according to India's most reliable opinion poll.

The Marg group poll published in the magazine India Today gives the Congress Party 195 seats in the new Parliament, against the 415 it won in 1984. The party would need 265 seats for an absolute majority.

The opinion poll was carried out between November 12-16 in a sample 37 constituencies. Most political analysts believe that since then there has been a further swing in the north to the opposition, led by Mr V.P. Singh.

The poll is, however, a little more comforting to the Congress than internal forecasts of the opposition and the Intelligence Bureau, both of which see the number of Congress seats falling to about 180.

In an effort to attract women voters, Mr Gandhi yesterday announced that his party, if returned to power, would support a new Rs50bn ($2.9bn) a year programme for poorer women. The programme was announced to coincide with the anniversary of the birth of his mother, Mrs Indira Gandhi, to capitalise on her popularity. Mrs Gandhi was assassinated in October 1984.

Paramilitary forces were being drafted over the weekend into some constituencies to provide security during the polling this Wednesday, Friday, and Sunday.

There was scattered violence across the country at the weekend with 150 people injured in Kashmir and six killed in Amritsar in the Punjab. There were continuing clashes between Hindus and Moslems around Bhagalpur in Bihar.

In Mr V.P. Singh's constituency of Fatepur in Uttar Pradesh – one of the areas earmarked for intensive security measures – a Hindu fundamentalist leader was shot. The killing provoked rioting between Hindus and Moslems in which vehicles were burnt. Crowds pulled down banners of the opposition Janata Dal.

The India Today poll – the most respected in the country and in previous elections the most accurate – shows the Congress Party's popularity dropping to its lowest in about a decade.

Pentagon plans big spending cuts

By Peter Riddell in Washington and David White in London

DEEP CUTS in US defence spending, involving reductions in force levels, the cancellation of weapons programmes and base closures, are being planned by the Pentagon in response to changes in the Soviet bloc.

Big cuts in US forces in Europe are also being discussed.

The planned spending cuts, the largest since the end of the Vietnam War 15 years ago, would start in the 1991 fiscal year beginning next October, with a possible 3 to 4 per cent cut in real, inflation-adjusted terms. They would be greater in the following years. Spending in the current 1990 fiscal year is $295bn.

For 1992-94, cuts would represent a real average annual fall of about 5 per cent. This compares with projections of a 1-2 per cent increase annually in the early-to-mid 1990s.

During a series of weekend interviews Mr Richard Cheney, US Defence Secretary, said the armed services had been asked to prepare options for such cuts as part of the discussions leading up to the presentation of the 1991 budget to Congress in January. President George Bush has yet to take final decisions.

However, any cuts before an arms reduction deal has been struck in Vienna threaten to deepen problems in the North Atlantic Treaty Organisation over balancing members' contributions to European defence.

America's European allies are expected to come under continuing pressure from the US Congress to take a larger share of the Nato burden.

Any sharp cuts in European commitments, especially in manpower, risk provoking further US cuts which would seriously unsettle the alliance.

The public airing of options by Mr Cheney is significant because he has been one of the most prominent sceptics about Soviet intentions and the success of *perestroika*. He acknowledged yesterday that the likelihood of an all-out US – Soviet conflict was probably lower now than at any time since the Second World War, although he said the Soviet Union still had to go a long way to clean up its act in the Third World.

Mr Cheney admitted there might be big cuts in US troops in Europe, but not yet. He noted that the existing conventional forces talks in Vienna (CFE) were intended to produce a reduction of 30,000 in US forces.

Western analysts believe that the latest changes in Eastern Europe, in particular East Germany, will prompt Nato to seek an early agreement at the CFE talks, setting the scene for negotiations on further East-West reductions. Indeed, Mr Cheney said the US Administration was discussing "CFE-2", which would go further.

However, a quick settlement may mean limiting the scope of the initial agreement to land-based forces.

US troops are the only part of Nato manpower directly touched on in the present talks, after President Bush's proposal that US and Soviet foreign-stationed forces in Europe should be brought down to 275,000 each.

But the UK is already reconsidering the future of the 55,000-strong British Army of the Rhine, which accounts for almost all the country's tank forces.

Retreat from intervention, Page 22

UK water industry sell-off is expected to be worth £5.3bn

By Clare Pearson in London

THE UK water industry looks set for an initial market value of about £5.3bn ($8.3bn) when the share price for the upcoming flotation is announced on Wednesday. This would make it the Government's third largest privatisation issue.

The price per share will not be finally struck till tomorrow afternoon, but the weekend indications were that it was likely to be set at 240p.

With the aggregate number of shares virtually certain to be 2.2bn, this will put the proceeds of the flotation a whisker behind the £5.4bn raised by British Gas in 1986. It compares with British Petroleum's £7bn in 1987.

Water's market capitalisation will be near the bottom end of earlier expectations, reflecting the Government's keenness to ensure the controversial flotation will prove a success.

Decisions on the differences between the dividend yields provided by the 10 companies, crucial to their relative attractions as investments, will be finalised this morning after fine-tuning over the weekend.

Any delayed reaction in the equity market to last Friday's poor UK inflation figures, as well as advance information on the trade figures due out on Thursday, will be among the factors taken into account in tomorrow's pricing.

The indications were yesterday that it would take a significant change in market conditions or Government priorities for 245p or 285p, the other two prices still under consideration, to be chosen. The first of the three payment instalments has already been set at 100p.

Schroders, the merchant bank advising on the issue, was yesterday thought to be looking at a weighted average dividend yield of about 8.5 per cent – although the actual percentage would be affected by the share price fixing.

Subject to last-minute fine-tuning, the companies are expected to rank, in ascending order of yields, in the following order: Thames, Severn Trent, Southern, Wessex, Anglia, Yorkshire, North West, Northumbrian, Welsh and South West.

Thames, Severn Trent, North West and Anglia together account for about two-thirds of the industry's value.

The spread between the yields is likely to be about 1.5 percentage points, with Thames providing a yield of about 8 per cent and South West at about 9.5 per cent. Mr Robert Giles, water industry analyst at stockbrokers Laing and Cruickshank, said yesterday these arrangements looked "pleasingly sensible."

The issue yield on South West's shares is expected to be noticeably in advance of those of the other companies, reflecting embarrassments it has suffered in the run-up to flotation. Welsh Water's high yield is designed to compensate investors for the difficulties a predator would suffer in trying to take it over.

UK legislation details, Page 24

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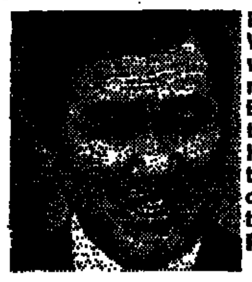
THE MONDAY INTERVIEW



President Roh Tae Woo of South Korea, who is visiting Britain next week as part of a European tour, intends to make it clear that Korea is very different to Japan for a reason crucial to its international image Page 46

Higher Rate Taxpayers — maximise the return on deposit

Private individuals who want to hold funds on deposit should consider insurance bonds. The immediate advantage is that interest is not grossed up as with normal building society and bank interest. Higher rate tax of 15% is only payable on the actual return.

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FT writers look at prospects for Western aid for Eastern Europe and the agenda facing the EC following Saturday's summit in Paris

Glad tidings for Poland and Hungary

EASTERN Europe can draw political hope and economic comfort from the European Community's promise to help economic recovery in those eastern countries prepared to turn themselves into democracies.

True, the tidings from Paris will especially gladden Poles and Hungarians who, because they have preceded their East European brethren down the reform road, already have institutional trade links with the Community and have now been promised urgently-needed short-term money from the West.

The Paris summit set down in cold print no comprehensive plan for Eastern Europe; indeed, there was no final communiqué. But the mix of measures, outlined by President François Mitterrand and other EC leaders, for short-term aid for Poland and Hungary, study of a major development bank for Eastern Europe and the prospect of Eastern European countries negotiating new or wider trade and economic co-operation agreements with Brussels amounts to something quite far-ranging.

How deep the Twelve will dig into their pockets to help the East is unclear to the extent that some of the initiatives are designed as part of a wider Western effort. So far this year, the Twelve, either through the EC budget or bilaterally, have given or pledged aid to Poland and Hungary in excess of Ecu700m (£500m) divided roughly equally between food shipments to Poland and agricultural, training, infrastructure and environmental project aid for both countries.

Some of this is to be matched by funds from 12 other industrialised countries, whose aid effort is being co-ordinated by the Brussels Commission. In addition, the Community's European Investment Bank (EIB) has authority to make up to Ecu1bn in project loans to Poland and Hungary over the next three years.

More money will now be forthcoming if the Twelve follow up their leaders' endorsement of a $1bn "stabilisation fund" for Poland, of a bridging loan for Hungary of the same amount, and of the desirability of studying President Mitterrand's idea for an East European development bank. This would be on the model of existing institutions for Asia, Latin America and Africa and capitalised at perhaps Ecu10bn by a wide group of Western countries.

Preparation for such a bank was put on a fast track at the weekend, partly in deference to Mr Mitterrand, the summit's host and the bank plan's author. The "troika" of past, current and future EC presidents (Spain, France and Ireland), plus the Commission, were charged with coming up with draft statutes in time for the EC summit in Strasbourg in two and a half weeks.

But some EC leaders have displayed reservations, with Mrs Margaret Thatcher describing it as "something for the longer term" when some states, like Poland, already had more debt than they could repay and with the Commission seeing a clash with an East European lending mandate already awarded to the EIB.

In Warsaw on Saturday Mr Jacques Delors, the Commission president, floated the slimmed-down idea of a more private sector oriented European-Polish bank, an idea eagerly grasped by the Poles as an addition, rather than an alternative to the more ambitious Mitterrand plan. In the current rush to help East Europe, plans seem to proliferate as additions, not alteratives, to each other. Aid recipients may also soon proliferate. East Germany figured at the Paris summit mainly as a chance for Chancellor Helmut Kohl to stress that Bonn's aid to the other Germany was strictly conditional on democracy rooting itself there, and that it would distract him neither from helping other worthy East European countries nor from building the Community.

But Mr Hans Modrow, East Berlin's new reformist premier, last week asked Brussels to include economic co-operation in trade talks that seem certain to be given the green light next week. The Community could resume its trade negotiations with Bulgaria, under the new leadership of Mr Petar Mladenov, Mrs Thatcher suggested.

The UK leader saw no reason why negotiations by Soviet allies for new or closer economic ties with the EC "would infringe a military arrangement like the Warsaw Pact". The problems of Yugoslavia – nominally communist but outside Comecon or the Warsaw Pact – deserved attention, said Mrs Thatcher.

The Paris summit condemned recent repression in Prague, but EC leaders clearly hoped for early change in Czechoslovakia. Only Romania remained firmly blackballed, with the French President saying its name could not be mentioned in the same breath as democracy.

Spread of the democratic contagion has fuelled fears on the part of Poles and Hungarians that they may lose the Community's attention. Assuaging these fears was the main aim of last week's trip to Budapest and Warsaw by Mr Delors and Mr Roland Dumas, the Foreign Minister of France which holds the EC presidency. Far from forgetting them, EC leaders endorsed:

- A $1bn stabilisation fund for Poland. The aim, says Mr Leszek Balcerowicz, the Finance Minister, is to give Poles the confidence to bring their hard currency back from foreign bank accounts or out from under mattresses and exchange it into the local currency, the zloty, knowing that the Polish state had some reserves to guarantee future withdrawals.

Poland has been soliciting hard currency gifts, not loans. The US has led the way by promising $200m and at the summit Mr Kohl pledged the equivalent of another $250m grant, while France and Italy have indicated their readiness to give or lend at concessional rates slightly smaller amounts each. Mrs Thatcher, not noted for her give-aways, signalled on Saturday night that the UK would do its bit.

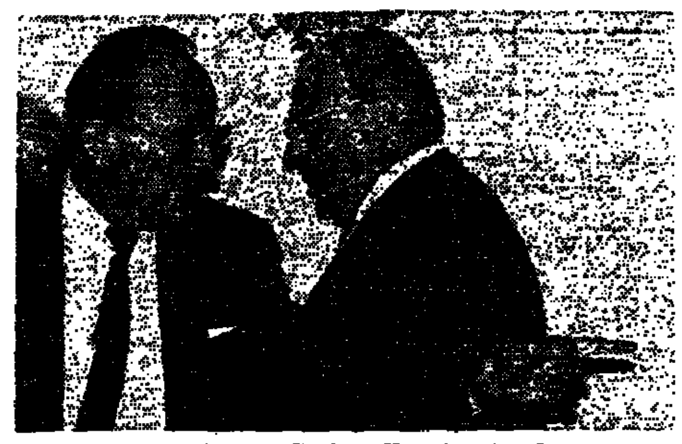
The bigger this fund, the better the chance of Poland going for a "big bang" monetary reform which, as advocated strongly by Mr Delors and tentatively by Mr Balcerowicz, would involve a swingeing further devaluation of the zloty to a single rate of convertibility and the creation of a new, larger unit zloty following the post-war West German action with the D-Mark. The aim would be try to stop in its tracks the Polish inflation rate which is 200 per cent a year and rising fast.

The monetary plan and the stabilisation fund, however, depend on Poland reaching agreement with the International Monetary Fund on economic restructuring.

- A $1bn bridging loan for Hungary. This, again, would be dependent on an agreement with the IMF. Such an accord should be easier for Hungary with far lower inflation and a less sick economy than Poland except for the political vacuum that has opened up in advance of next year's parliamentary elections.

For the longer term, Hungary has its sights more clearly on some form of association with the EC. It took a first political step towards this last week in applying for membership of the Council of Europe, which has often served as a democratic antechamber for EC membership. Poland, more pre-occupied with its worse economic problems, is less inclined to dream. Mr Krzysztof Skubiszewski, the Solidarity-aligned Foreign Minister, told his EC visitors that Polish membership of the Community was "social science fiction".

David Buchan



West Germany's Foreign Minister Hans-Dietrich Genscher, left, and Chancellor Helmut Kohl give a post-summit briefing

Monetary union stays on Elysée's after-dinner menu

THE CONTENTIOUS issue of whether the European Community's preoccupation with developments in Eastern Europe would affect its advance towards economic and monetary union was the dog that did not bark at the dinner of the Twelve in Paris on Saturday evening.

But though it was not discussed openly at the elegant tables of the Elysée Palace, both Chancellor Helmut Kohl of West Germany, and Mrs Margaret Thatcher, of Britain, referred to it – indirectly in the first case, much more directly in the second – at news conferences later.

Mr Kohl was at pains to dispel the impression that West Germany might be weaned away from the EC by the siren voices on its eastern borders. In the most emphatic manner, he reassured his partners that Bonn would remain committed to European unity regardless of events in Eastern Europe.

"We are all aware that the union of Europe within the Community is more than ever a priority and is a precondition for reform in Eastern Europe," he said. "There is no alternative for us."

Mrs Thatcher, as might be expected, was somewhat more circumspect when it came to talking about the march towards European union. She recognised that "the constructive way in which Europe had expressed its solidarity" and "the way in which (Community) countries had steadily worked in closer and closer co-operation with one another" had been one of the factors which had brought about the movement towards democracy in Eastern Europe.

But it was mentioned in the same breath as "the staunchness of Nato and its defence" and Mr Gorbachev's glasnost and perestroika.

Mrs Thatcher did not attempt, however, to demote what she now describes as "economic and monetary reform" – the more usual term "union" is studiously avoided. There would be plenty of time to discuss the subject, as well as the EC's policy towards Eastern Europe, at the Strasbourg summit in two weeks' time, she said.

However, on the fundamental issues at stake, she was as adamant as ever. There were two different ways of getting to economic and monetary "reform". The first was to make it "totally unaccountable democratically. It is moving powers over monetary reform and moving powers over the economy away from national parliaments to bodies which are not democratically accountable to anyone".

The debate in the House of Commons had shown that such a scheme was totally unacceptable to all sections of parliamentary opinion.

An alternative plan for competing currencies, put forward by the British Government, had received "quite a number of compliments," Mrs Thatcher said, though she did not specify from what quarter. The British plan, she claimed, was more in accordance with "the true traditions of the EC, which is not an attempt to tie people up in bureaucracy, and should not be an attempt to take things away from democracy."

"It really would be very ironic if, while insisting that Eastern Europe move to full democracy and full human rights as a condition of aid, we ourselves take what is the heart of parliamentary control out of democratic accountability."

No other participant had so much to say about a subject which was not discussed at the dinner. Indeed, it was clear that Britain's partners felt strongly that the consensus reached on Eastern Europe should not be marred by the Community's habitual quarrels about its internal development.

That consensus was also in evidence when it came to East Germany and the highly sensitive subject of German reunification. Mr Kohl's view that substantial economic aid to East Germany should be made conditional on concrete progress towards democracy and the establishment of human rights, was supported by everyone round the table. There was general agreement, too, that it would be a long time before German unification became a realistic proposition.

"The question of borders is not on the agenda," Mrs Thatcher said firmly, and no-one was heard to disagree with her. They should stay as they were and all military matters should continue to be conducted through Nato and the Warsaw Pact. "This arrangement has suited us all very well and, at a time of great change, it is necessary to keep this background of stability and security."

Robert Mauthner

Congress approves $938m aid package

THE US Congress has at last approved $938m (£596m) in assistance to Poland and Hungary over the next three years.

This is more than twice even the enlarged package proposed in late September by President George Bush, though he is expected to sign the legislation.

After lengthy wrangling, mainly for domestic partisan reasons, the Support for East European Democracy Act was finally approved early on Saturday.

Some $852m will go to Poland and the remaining $86m to Hungary.

Bush: expected to agree to the Congress package

The three-year package will provide Poland with $125m in emergency food aid, $240m in grants to stimulate private enterprise, $35m to modernise Poland's telephone system, a $200m contribution to the $1bn international fund for currency stabilisation, and Federal guarantees of up to $200m in bank loans for trade with Poland.

There is similar, though smaller, assistance for Hungary.

Both countries will also receive $12m to assist moves towards the establishment of democratic institutions, $20m for environmental work and $14m for cultural and scientific exchanges.

Congress has also sent to the White House an appropriations bill which includes $533m to fund the first instalment of the aid in the current 1990 fiscal year.

A mixed team of US Cabinet officers, prominent businessmen and union leaders will visit Poland in a week to discuss in more detail what the US can do to help the economic reform programme.

Peter Riddell

FINANCIAL TIMES

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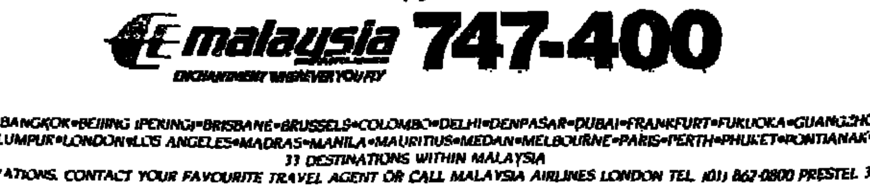

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'SEVERAL BILLION' MARKS SMUGGLED OUT

E Berlin plans to protect currency

By Leslie Colitt in East Berlin and David Goodhart in Bonn

EAST Germany is preparing to introduce strict border controls on its citizens visiting the West to curb massive outflows of East German marks and a plunging black market exchange rate of the "soft" currency.

Ms Uta Nickel, the new Finance Minister, said measures would shortly be taken by customs officials to halt "speculation with money and goods". She noted that convertibility of the mark was a long-term goal.

Bankers in West Berlin estimated that since the opening of the borders to West Berlin and West Germany on November 9, "several billions" of non-convertible East German marks were smuggled to the West by East Germans anxious to buy Western goods. Mr Hans Modrow, East Germany's Prime Minister, noted that "speculators" had pushed the mark's black market rate in the West to 20 for DM1.

Some East German visitors to the West exchanged their DM100 "welcome money" from the West German government back into East German marks. The proceeds, 2,000 marks, were equal to two months' average wage in East Germany.

New East German customs regulations were also expected to come into effect to halt the outflow of highly-subsidised East German goods, massive amounts of which were being taken out of the country by "Polish tourists" and re-sold in Poland, East German newspapers said.

● Nearly half of all West Germans believe that relations with East Germany will within a few years resemble relations with Austria and Switzerland, according to opinion polls published at the weekend.

The latest political poll by the Infas organisation, taken last week, shows support for the CDU/CSU, the main party grouping in West Germany's centre-right coalition, at 39 per cent, with support for the Social Democrats also on 39 per cent.

The liberal Free Democrats got 9 per cent and the Greens 8 per cent, and the far-right Republicans were down to 4 per cent.

Such a result in next year's national election would ensure continuation of the existing coalition but the centre-right parties appear not to have benefited much from the current resurfacing of national emotions.

According to another poll by the Emnid Institute, the Social Democrats – who did most to re-establish contact with East Germany 20 years ago – are trusted more than the CDU/CSU to develop an appropriate relationship with East Germany.

The Emnid poll, for Der Spiegel magazine, also shows that there are strict limits on how much West Germans are prepared to sacrifice for their eastern cousins. Some 74 per cent of respondents were unwilling to pay higher taxes to finance aid for East Germany and only 6 per cent favoured raising the "welcome money" over the current rate of DM100.

Today Mr Rudolf Seiters, head of the Chancellor's Office in Bonn, will hold discussions with the new leadership in East Berlin over various joint infrastructure projects, the conditions for broader economic aid, and the visit of Chancellor Helmut Kohl, which is now likely to take place between the East German ruling party's special congress, December 15-17, and Christmas.

As most of the 3m weekend visitors from East Germany returned home yesterday, Mr Modrow welcomed wider discussions with West Germany about matters of common interest.

The party of the disillusioned

Leslie Colitt enters the fortress of East Germany's Communists

A CRACK opened in a fortress of the East German Socialist Unity (Communist) Party (SED), the bulking grey pile of the Central Committee in East Berlin. It offered a rare view inside of a torn and disillusioned party.

Confronted with internal rebellion and a fast-deteriorating economy, embattled party leaders have opened a Consultation and Information Centre for the 2.3m members and 14m other East Germans.

Only a trickle of citizens, mostly "comrades", came to the rear entrance of the Central Committee building, where they were directed by a guard up two flights of stairs to the austere consultation rooms, painted a stark Prussian white.

The inquirers, accustomed to decades of rose-tinted reports on the economy, had been alarmed by recent dire assessments – including news of a Marks 15bn budget deficit, inflation (previously "non-existent") of 12 per cent, and a plunge in the black market value of the East German mark to five West German pfennigs.

A burly party member waiting outside "Consultation" Room 207 noted with pride that he had helped erect the Berlin Wall in 1961 as a member of the factory militia. Now, he said angrily, the country was thrown back to the pre-1961 situation, "bled white" by black marketeers and speculators.

Remarkably, one man inquired about rejoining the party, at a time when more than 80,000 members have deserted it. "I was expelled 25 years ago for demanding the same reforms Krenz wants now," the gaunt, ascetic man in his 50s said.

But the man who had him evicted was still in charge of his party branch; the inquirer wanted to find out whether the party had really changed.

East German workers, he lamented, wanted to "join" West Germany, instead of reforming East Germany. Intellectuals and other better-educated citizens were against reunification.

When it was realised that a foreigner had penetrated the building's defences, a beaming, rosy-cheeked, cigar-smoking member of the apparat appeared.

He turned out to be Prof Dr Jörg Vorholzer, deputy editor of the party's theoretical journal Einheit, and he proclaimed to me that the new "open door" policy had met great success.

"Life in our country has put the renewal of the SED and the GDR on the agenda," he stated. "We want relations between the party and the rank-and-file to be a *great deal closer*," he added, emphasising the last three words like a schoolmaster.

He declared that both party and non-party citizens wanted the GDR to remain socialist. "They do not want a capitalist society," he said, looking me in the eye. "I believe the SED is capable of renewing itself." But it could not take place without deep "conflicts" in the party. "The causes of the present deep crisis are being relentlessly revealed."

I put it to him that the personalising of past mistakes might be a distraction from failures of the system itself. Barely pausing, he acknowledged briskly that while Marxism was "living knowledge" and socialist society a "living organism", there was indeed a danger of a crisis when that knowledge was not "applied creatively".

Prof Vorholzer gave, to Western ears, a disappointing definition of the "free elections" which the leadership has promised. Only parties "standing on the foundations of socialism" could participate.

Who would decide what kind of socialism this was? He looked at me again. Well, one of the basic definitions of socialism was common ownership of the means of production: "On this we must all agree."

The SED might lose an election, as "we take the rules of the game of genuine democracy seriously." But it would naturally do everything possible not to lose. The SED was for a pluralistic socialism and the other four parties allied with it also "stood on this platform".

The opposition was calling for genuinely free elections, without qualifying conditions, I noted. Had events not overtaken the idea of restricted elections? "Yes," he said, nodding gravely. "It is very late."

Olive branch for Moldavian nationalists

By John Parker in Kishinyev, Moldavia

THE NEW leader of the turbulent Soviet republic of Moldavia yesterday took the first step towards reconciliation with the Popular Front, the nationalist group that successfully campaigned for the ousting of his predecessor.

Speaking in a live phone-in programme on television (itself an innovation), Mr Pyotr Luchinsky promised that some 2,000 Interior Ministry troops, sent in to restore order last week, would leave the republic today.

He told the 4m citizens of the small western republic – on the border with Romania, with which it has close ethnic ties – that recent violence was the fault of the local party, which had been slow to reform, not of the Popular Front.

"The style and methods of work which led to the full recovery from the years of stagnation", he said, "also led to the crisis situation."

The Popular Front has responded to Mr Luchinsky's overtures by promising to avoid an immediate confrontation, so as to give the new leader a breathing space.

They cancelled a plan to rally yesterday at the statue of Stefan the Great in central Kishinyev, and Mr Yuri Roshka, a speaker for the front, said that the new leader "needed time".

The Interdvizheniye, a rival association of Russian-speaking Moldavians who oppose the Popular Front's advocacy of the traditional Latin language and culture, also cancelled a rally. Its leader, Mr Anatoly Lisetsky, praised Mr Luchinsky for his attempt to seek a compromise.

Mr Luchinsky refused to be drawn about the details of his forthcoming programme, but his two-hour discussion contrasted sharply with that of his Brezhnevite predecessor, Mr Semyon Grossu, who was shunted aside on Thursday.

It was conducted in fluent Romanian, a language which Mr Grossu speaks badly. And The new party chief frequently criticised the Communist party's record in Moldavia.

Walesa warms up the crowds in chilly Chicago

IT WAS a bone-chilling 15 degrees Fahrenheit in Daley Plaza, and the crowd was getting restless.

Governor James "Big Jim" Thompson of Illinois stepped forward to remind everyone that "every day, Chicago is the capital of Polish America". Mayor Rich Daley of Chicago proclaimed the Polish American community to be "the cornerstone of our city". Alderman Roman Pucinski of the 41st ward declared that "one man of courage is indeed a majority".

Okay, said the assembled 5,000 Polish-Americans, stomping their feet in the cold, so where's Lech?

He was sitting as usual with his interpreter, waiting to deliver yet another speech about Poland's struggle for freedom, democracy, and a decent standard of living.

Finally, Lech Walesa stood up; and with the sense of humour and history that has characterised his US tour, he captured his audience.

On Saturday afternoon in Daley Plaza, Mr Walesa spoke to Poles of all ages: the grey-haired, gap-toothed veterans of the Second World War; the middle-aged refugees who fled communist Poland in the 1950s and 1960s; and the young Polish-Americans who escaped in the early 1980s, when Solidarity seemed to be a brave but lost cause.

Mr Walesa also spoke to fellow trade unionists: the Bakery Workers; the Bricklayers; the Brotherhood of Railway Signalmen (founded 1913); the Carpenters Union; the Glaziers; the Machinists; and the Painters (District Council 14). Chicago, with 1m Polish Americans, may have the biggest Polish population in the world outside Poland; but it is also the most unionised city in the US.

Mr Walesa's skill – and it is a tribute to his advisers as well as to the great man himself – is that he has been able to balance his trade union ties with the need to appeal to American capitalists, few of whom have much time for organised labour.

Judging from his performance in Chicago on Saturday, the shipyard electrician has indeed persuaded some hard-nosed investors that Poland, with its near-ruined economy and its demoralised population, at least deserves a look.

Walesa: captured the crowd

After a $100-a-plate luncheon, aimed at raising $175,000 (£110,000) for Solidarity, the state treasurers of Michigan and Illinois pledged $10m and $25m respectively to take up Polish government "Freedom Bonds" when they are floated next year. Businessmen seemed prepared to believe that Poland could present a business opportunity. "He has generated enough interest," said Mr Paul Odrobina, an official of the Polish American Congress.

Lionel Barber sees the Solidarity trade union leader in the capital of Polish America

Ideas abound. Congressman Dan Rostenkowski, the city's most powerful politician, suggested sending used American cars to Poland. Mr Walesa, who has complained constantly about pollution in his country, said he had no doubt that a retooled American car was a better bet than a new Russian or Polish model.

Some investors have already taken the plunge. Mr Michael Kobelinski, chairman of the First State Bank of Chicago, has, with about 400 other Chicagoans of Polish descent, set up the Polish American Forum, with contributions of $100 from each member.

Mr Kobelinski claims already to have turned his first bucks: investing $115,000 to buy and instal new machinery in an idle vegetable cannery in Lodz and then processing the food and selling it in West Germany for $900,000. (Food processing, tourism, and environmental aid are the main businesses needed in Poland, says a government official travelling with Mr Walesa.)

Ad-hoc groups such as the Polish American Forum merely strengthen a well established "Pole-aid" network in Chicago. Polish-Americans such as Mrs Bogusia Yon have been sending money and clothes parcels to relatives and friends for many years; now, in the immediacy of Solidarity's triumph and communism's apparent demise, there is simply a little more urgency.

On Saturday, Mr Walesa made clear that Polish Americans are the designated leaders of the investment drive into Poland. If they jump, other Americans will follow.

As always, Mr Walesa combined his passionate appeals for support with folksy good sense: those Poles who had made their fortunes in America should come home, but those who had not made enough money could return later.

Perhaps his most moving message came on Daley Plaza when, at last, he could discard the pre-packaged words and speak direct to the crowd. "You can love two countries," he said, the electricity surging through his audience, "Poland and America."

POLAND'S meat exports could grow by 10 to 15 per cent next year, as domestic demand falters because of prices which have risen as much as tenfold on some brands since price controls were removed in August, Christopher Bobinski writes from Warsaw.

The fall in demand comes after Poland has already received 10,000 tonnes of meat as part of an EC aid package and is expecting 11,000 tonnes more from Italy and 10,000 tonnes of bacon from the US.

China to shut many of its HK companies

By John Elliott in Hong Kong

CHINA PLANS to close many of its companies operating in Hong Kong during the next few months, especially those involved in property and the stock market. It also intends to try to stop any new enterprises opening.

This was announced in Canton yesterday by Lu Ping, deputy director of the Hong Kong and Macao Affairs Office, Peking's main government body overseeing the two colonies' return to Chinese sovereignty in the second half of the 1990s.

Peking has been planning for most of this year to curb the activities of the myriad companies set up in Hong Kong by mainland provinces and corporations in recent years. But little progress has been made.

The number involved is estimated at anything between 1,500 and 4,000. As few as a third are thought to have been officially authorised, and many are believed to be involved in corrupt trading and speculation on behalf of mainland officials and cadres.

One of the best known is a branch of Kanghua Development Corporation, founded in Peking by Deng Pufeng, son of Deng Xiaoping, China's veteran leader.

Following serious corruption charges, Kanghua's Hong Kong operation, called Bring Fast, was supposed to have been closed earlier this year but was still operating late last month.

Large enterprises such as China International Trust and Investment Corporation and Everbright Holdings appear to have emerged relatively unscathed – apart from fines and some executive dismissals – from corruption inquiries in Peking.

Their Hong Kong offices are now drawing up ambitious investment plans.

The clampdown announced yesterday by Lu is thought to be directed at smaller enterprises. He said it was part of the Chinese Government's new policy of reforming and restructuring the country's weak economy.

Fed stayed hand to avoid depressing $

By Peter Riddell, US Editor, in Washington

THE POLICYMAKING Federal Open Market Committee delayed cutting US interest rates last month because it did not want to appear to be trying to force the dollar lower in foreign exchange markets.

The minutes of the October 3 meeting of the committee, published late on Friday, underline the differences of emphasis on monetary policy between the Fed and the Treasury. The Fed believes that domestic conditions, and especially inflation, should be the priority in setting interest rates rather than any attempt to force down the dollar.

The timing is significant, since the committee's discussions came 10 days after Group of Seven finance ministers agreed a statement strongly opposing any further appreciation in the dollar and widely seen as supporting some modest decline in its value.

However, the Fed governors and regional bank presidents on the committee felt that not only did domestic conditions not justify a cut in interest rates at that stage but also that "an easing of policy so soon after" the G7 meeting "would be misinterpreted as an attempt to use monetary policy to force the dollar lower."

The minutes state: "Monetary policy should not be used, in the committee's judgment, to attain particular levels for the foreign exchange value of the dollar that could conflict with domestic policy objectives. In current circumstances, an easing might well provoke an undesirable sharp decline in the external value of the dollar."

Two small reductions in US interest rates have occurred since early October, though primarily in response to evidence of a slowing in US economic activity.

Some of the Fed governors, notably Mr Manuel Johnson, the vice-chairman, have also been highly sceptical about intervention in foreign exchange markets to force down the level of the dollar, as opposed merely to stabilising short-term conditions.

SOVIET AMBASSADOR TO DAMASCUS HINTS AT CHANGE IN EMPHASIS OF ARMS POLICY

Perestroika's cooler winds reach Syria

By Tony Walker in Damascus

MOSCOW'S MAN in Damascus, Mr Alexander Zotov, is no ordinary Soviet diplomat, nor is there much doubt about his mission in a country which hitherto has appeared intent on ignoring the winds of change gusting through Eastern Europe.

Mr Zotov, one of the Soviet Foreign Ministry's most urbane and experienced officials, has been given the difficult task, as he made clear in a lengthy interview, of subtly redefining Moscow's relationship with one of its potentially most troublesome clients.

Speaking in the Soviet mission in Damascus, he gave two Western reporters a rare and surprisingly candid insight into Moscow's new approach to dealing with its closest Middle East ally.

"We have no intention of loosening our relationship with Syria . . . to make them feel insecure, that they have lost their only friend and pillar of support," he said "but, of course, we're living in a world where we have to look at new developments."

Mr Zotov made clear that the Soviet Union, owed the equivalent of $15bn (£9.5bn) by Syria, would apply a more rigorous commercial approach to arms sales and would be guided by its view of Syria's "reasonable defence sufficiency".

He defined this doctrine as one that gave Syria the capacity to withstand an Israeli strike, and then to be able to counter-attack, inflicting unacceptable losses on the enemy in the process.

It is no secret in Damascus that the Syrians were apprehensive about Mr Zotov's appointment. The new breed of Soviet official would almost certainly be viewed suspiciously by the old-guard Syrian leadership.

It is too early to tell whether the new, more activist and less confrontational Soviet approach to regional diplomacy is making much of an impact in a country where change comes slowly, if at all; but judging by Mr Zotov's openness about differences of emphasis between Moscow and Damascus, Syria must know that the days of the almost unquestioning support that prevailed during the Brezhnev era are gone forever.

The ambassador made pointed reference to a keynote speech delivered by Mr Eduard Shevardnadze, the Soviet Foreign Minister, in Cairo in February, in which he warned of the danger of a spiralling regional arms race.

"There are certain limits of these countries being saturated with arms," Mr Zotov said. "There is the old question: what is enough? The strain of military expenditures is quite obvious in all Arab countries . . . and in Syria, too."

None of this will be news to Syria, although it may prefer that the representative of its guardian superpower refrain from making such challenging statements publicly in its own capital. Damascus, meanwhile, has begun talking to other potential arms suppliers, most particularly China.

Mr Zotov was careful to emphasise that military co-operation would continue to underpin the complex Soviet-Syrian relationship. The two countries have begun negotiating their next five-year military co-operation agreement to run from 1991 to 1995.

Special emphasis, Mr Zotov said, would be placed on air defence. He would not confirm deliveries of the Sukhoi-24 attack bomber, but Western officials in Damascus report that the first of these sophisticated aircraft has begun arriving. The continuing transfer of advanced Soviet technology requires the presence in Syria of several thousand – some estimates put the numbers as high as 4,000 – Soviet military advisers.

None of this is likely to change soon, barring an unexpected upheaval, but it is obvious that relations between Moscow and Damascus have entered a new, dynamic phase.

Moscow, which is edging closer to Israel and therefore to a more central role in regional diplomacy, would be likely to attempt to use its leverage with the Syrians to persuade them to co-operate. As Mr Zotov said: "The Soviet Union can exert pressure on the Palestinians and the Arabs. We can be a constructive partner in the process."

Lula set to join run-off for Brazil presidency

By Ivo Dawnay in Rio de Janeiro

THE MOST radical of the main candidates in Brazil's presidential election last night looked certain to go forward to the run-off on December 17.

Mr Luis Inacio Lula da Silva, leader of the socialist Workers' Party (PT), moved ahead of his principal left-wing rival, Mr Leonel Brizola, as the last votes were being counted, four days after the polls closed.

Lula, as he is universally known, is now set to challenge the first round's clear winner, Mr Fernando Collor de Mello, in a fierce left-right struggle.

The electoral authorities revealed that the former union militant moved into second place late yesterday afternoon. With less than 5 per cent of the 82m votes left to tally, Mr Collor had won 19.2m, Lula 11.1m and Mr Brizola 11.05m.

But the PT president's strength – bolstered by militant Catholic priests – in remote rural regions meant his lead was set to expand.

Mr Brizola, a veteran populist, conceded defeat and pledged support to his rival in the struggle to topple Mr Collor, now odds-on favourite.

Lula's eleventh-hour triumph is likely to be registered in Brazil's financial markets today by a fall in share prices and a rise in the exchange rate for the black dollar.

His prescription for the country's inflation-racked economy: advocacy of strong central government industrial policy, wide-ranging land reform and opposition to privatisation, is considered disastrous by the economic liberals lining up behind Mr Collor.

Nevertheless, Lula's genuine working-class roots and reputation for honesty are expected to win him considerable support from those who believe Mr Collor to be a merely a well-marketed and re-vamped representative of Brazil's old ruling oligarchy.

Despite Mr Collor's substantial 28 per cent vote in the first round, many non-partisan analysts believe the run-off will produce a much closer result as both candidates temper their programmes in a bid to capture the centre ground.

'Competitive bloodbath' looms as US car sales fall away

By Anthony Harris in Washington

MR HAROLD POLING, chairman-designate of Ford Motors, has for some months been warning of a competitive bloodbath in the US car market, and he chose his first public engagement since his promotion was announced to underline his message.

Speaking in Washington last week, he upped his estimate of US surplus capacity from 15 per cent, his figure in some previous speeches, to 20 per cent. Mr Poling has previously been regarded as something of a pessimist; but this week he began to look far more like a realist.

Partly because of his views, Ford has kept a tight check on expansion, and is the only one of the Big Three car manufacturers which still hopes to get through what now looks like a car recession without closing any plants.

Both Chrysler and General Motors have announced further closures and lay-offs within the last few days.

Almost as he spoke, the industry released its sales figure for the first ten-day selling period in November, and they are dreadful: sales are estimated to have fallen to an annual rate of 5.4m from the already-depressed 6m October rate.

This contrasts with rates of 7.7m in September and 8.3m in August, when discounting of 1989 models was at a peak.

While some relapse from these clearance sales had been expected, the inventory figures tell a clear story. At the end of the discount campaign, the industry had reduced stocks to 59 days' sales, about the desired level. By the end of October, this had risen again to 77 days' sales.

The total will certainly have risen further: the industry embarked on the 1990 model season with planned production schedules at a 6.9m annual rate, and although this has been reduced by closures and lay-offs, the actual sales rate is below the gloomiest forecasts.

Statistics for only ten days must obviously be treated with suspicion, especially since much of the US has been basking in an Indian summer this month: families will have had something better to do than tour the car lots, especially with the Thanksgiving holiday, a traditional special-offer event, in near prospect. All the same, the contrast with 1988 is grim.

All the main manufacturers suffered enormous declines – led by Honda, the leading Japanese "transplant," with sales down 31 per cent.

Since in all other respects 1990 is a year of scarcely detectable face-lifts rather than genuine novelties in vehicle development, it may be necessary to wait for the first of the 1991s to see whether innovation can do what improvement has failed to do for the US car industry

General Motors' sales fell 29 per cent, Ford's fell 24 per cent, and Chrysler's by 23 per cent.

Only Nissan, which is recovering from a slump of its own with the help of new models, and the newest Japanese transplants managed to increase their sales; but their combined market share is very small.

These are the worst figures seen since the car market recession of the early 1980s, and they have provoked industry analysts – who had forecast a recovery rather than a slump in November – to talk outright recession again.

It would take a very marked recovery to bring even their previously downbeat forecasts of a 6.5m year to look plausible. But the industry is haunted by a second, forbidding puzzle: is it facing market saturation, or a shift in public taste?

There are two straws in the wind. First, the sharpest declines in sales has been in the high-powered, high-glamour models which were designed to attract customers back to the American product, notably the taut and very shapely General Motors mid-sized models, where prolonged plant closures have been needed with the shine hardly off the car-of-the-year awards they won.

Market polls show that customers now say that they are more interest in safety than any other merit; but safety features such as airbags, now appearing generally, and the widespread option of anti-skid brakes, inflate prices, and the sad start to the 1990 model year suggests that while customers may be willing to talk to pollsters about vehicle safety, they are reluctant to pay for it.

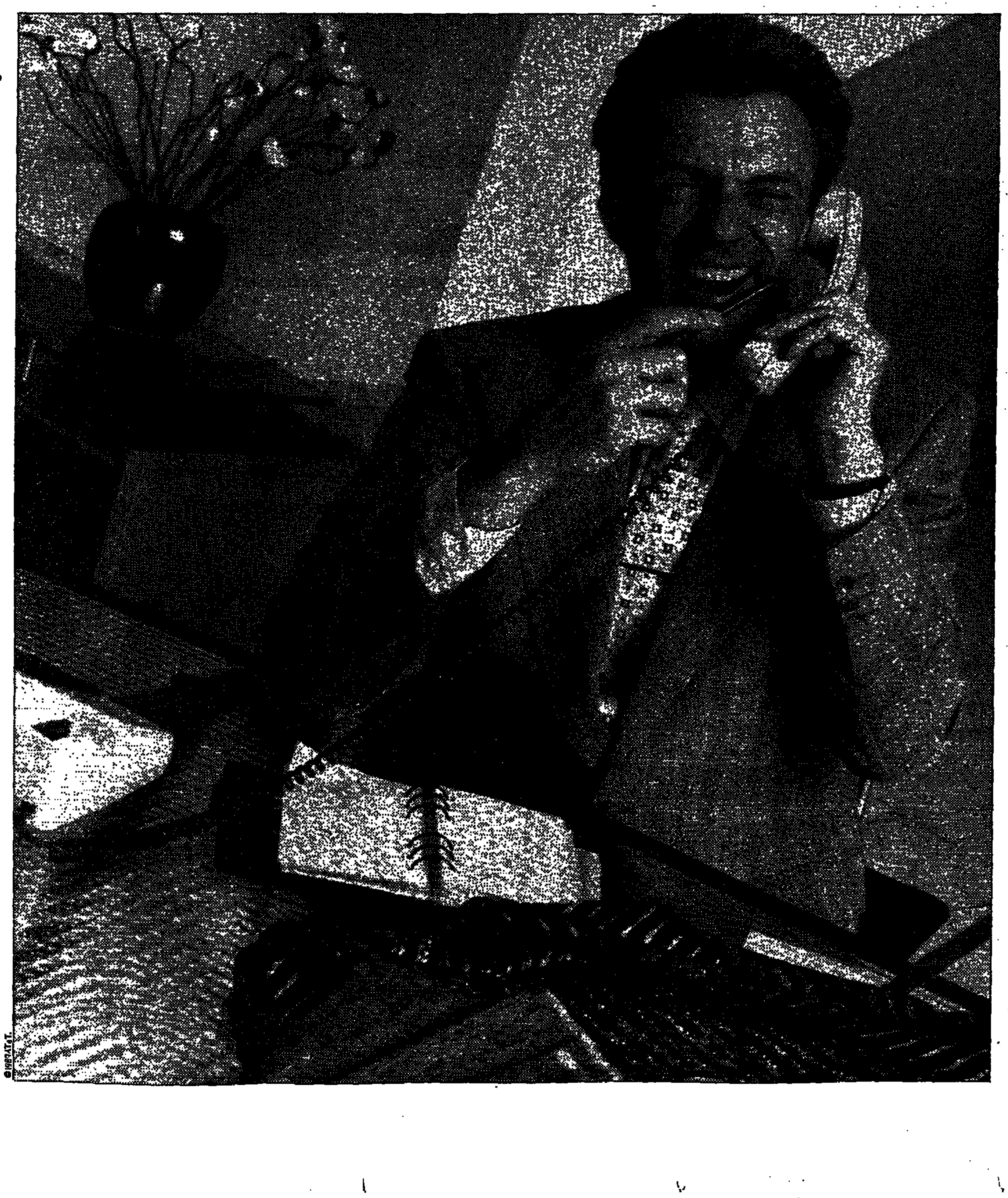
Since in all other respects 1990 is a year of scarcely detectable face-lifts rather than genuine novelties, it may be necessary to wait for the first of the 1991s to see whether innovation can do what improvement has failed to do. Mr Poling's Ford, which will introduce a replacement for the once best-selling Escort, will fight the first important round.

Meanwhile, the industry is only beginning to explore the normal remedy for domestic over-capacity: exports. Only Chrysler of the major US companies is making a part-serious effort so far: it plans to export some 50,000 vehicles (mainly Jeeps and its market-leading recreational vans) in 1990.

Honda has won some good publicity by sending US-made Accords back to Japan, and the other transplants also talk of two-way trade.

But there is an unbridgeable gulf from exports barely into six figures, even on optimistic plans, and a domestic demand shortage of perhaps 2m cars.

HE'S NOT IN THE STATES.



BUT HE'S SEWING UP A DEAL IN MANHATTAN.

"I've just seen this season's collections."

"Always first with the inside info. So were we right?"

"You always are. You specified all the latest colourways from us."

"I guess I ought'a order more silk then."

"As I said, Brad, you're always right."

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Mercedes-Benz present their latest range of multi-valve performance cars

Quite a quartet. And they've more in common than you may imagine. Such as the twin-cam, crossflow, four-valves-per-cylinder technology now available in the six-cylinder 3.0-litre engine nestling in the nose of the 300E-24 saloon, the 300TE-24 estate and the 300CE-24 coupé.

You'll find the multi-valve engine sitting amidships in the C9-88 Group C Mercedes-Benz that won the World Sports Car Championship and Le Mans this year, and there's no denying that this V8 has a notch or two more power. But do you really need more than 231bhp and an acceleration potential of 0-60mph in less than 7.5 seconds (300E/300CE manufacturer's figures) to tackle Knightsbridge, the M62, or the swoops and curves of Wales?

A More Refined Engine

By doubling the number of valves per cylinder in their potent series-topping six-cylinder engine, Mercedes-Benz engineers have optimised its efficiency. And, by introducing automatic adjustment of the camshaft timing, they've eliminated a common weakness of multi-valve engines – a narrow band of high power available only at the top of the rev range. It is a particular strength of these engines that very high torque is available almost from idling revs.

The engine also incorporates the latest generation electro/mechanical fuel injection. All of which means, in plain language: more power that's more accessible, a cleaner exhaust, smoother idling, greater refinement.

Refreshed 200E-300E Body Styling

In fact, the latest, expanded, 200E-300E series is pretty lively all round. There's an extensive colour range and new, colour-coordinated protective side panels. The seats have been completely redesigned to improve lateral support without limiting movement, and the fabrics are more luxurious.

All models in the series are now also offered with a Sportline performance option for those who like their driving to be a little more yeasty.

Lower, firmer suspension, more direct steering, and wider wheels and tyres, all contribute to tauter handling and roadholding. For the truly sporting-minded there's the option of a close ratio manual gearbox and there's a new five-speed automatic available with the 300CE-24 coupé.

The Sportline option can inject a little brio into the interior, too. There are Sportline seats front and rear that embrace driver and passengers more securely, and the package is rounded off with a smaller, leather-covered steering wheel and gearchange.

The more powerful, freer-breathing, multi-valve engines come in the quartet of body styles shown here. However, if comfort and convenience matter to you as much as performance, Mercedes-Benz recommend that you limit your choice to the three on the left. (The Group C car is a little cramped, and all-round vision is scarcely panoramic.)

WORLD SPORTS CAR
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Brussels flexes its muscles to take a swing at state subsidies

The Commission has made it clear it does not take kindly to countries that bend the rules, Lucy Kellaway reports

MEMBER STATES have been warned. The European Commission does not take kindly to countries that bend the rules in handing out cash to protect their industries, as France discovered last week.

For not keeping to its side of the bargain over the granting of FFr20bn (£2bn) of state aid to Renault, the French Government has been told by Brussels to come up with a new plan to cut car capacity, or go to court.

The example of Renault – the most startling since Sir Leon Brittan took over as Competition Commissioner at the beginning of the year – will give pause to states which think they can go on subsidising their industries when all the other forms of protectionism have been swept under the carpet of the single market.

When tariff barriers, national standards, unfair public procurement practices and all the rest of the protectionist armoury has been taken away, state aid might seem to be the one tool left. But Sir Leon is well aware of the danger, and has made clear his office will examine every item of state aid paid out.

The Commission has wide powers over state aid, laid down in the Treaty of Rome. Countries must tell Brussels in advance about any aid they propose to give, and any scheme that the Commission considers "not compatible with the Common Market" it can order changed. If member states do not obey, they can be taken to the European court.

For the past 10 years, the Commission has been taking these powers more and more seriously. Sir Leon's predecessor, the equally uncompromising Mr Peter Sutherland, made illegal state aid one of Brussels' biggest bogies, taking a hard line on aid paid to Rover, Leyland and numerous other smaller companies.

Until recently, the Commission approached state aid on a case-by-case basis, and had no idea how much state aid was being paid inside the Community. Its first inventory produced earlier this year, after four years of painstaking search through the accounts of member-states, shocked almost everyone on the extent of the aid.

According to the survey, about Ecu100bn (£71bn) is being handed out in aid each year – about 3 per cent of GDP, or Ecu730 per worker. Governments give more to companies in state aid than they get back in direct taxes, and in some countries, the volume of state aid is bigger than the entire budget deficit. As a result of these findings, Sir Leon decided that it was no longer enough to examine each

1992 THE EUROPEAN MARKET

new aid scheme, but that all the existing ones, many of which were approved five or 10 years ago, should be re-examined to make sure that they still comply with the rules.

At the start of next month, all 12 member states will be summoned to be told of the change of emphasis. While they are unlikely to object in principle, there may well be resistance from those countries with most to fear from the examination. The Commission will inform them of its plans to pick through each of the 1,000 schemes in turn, starting with the biggest in each country. The task is a daunting one. "It is depressing to think that there are 30 of us here trying to control state aid, while in the Walloon region of Belgium alone there are 150 doling it out," says one bureaucrat.

The survey reveals an broad variety of aid in terms of purpose, type and quantity in different member states. About half the total aid granted goes to the subsidy-hungry sectors of agriculture, railways, and coal. The rest is in the manufacturing sectors, especially in steel and shipbuilding, where aid amounts to about one-third of value added. But it is the rest of the manufacturing sector which is the most contentious, as it is not specifically covered by clear aid guidelines. In this area, member-states divide into two categories.

Out of a class of 10 – Spain and Portugal were too new to the Community to be included in the inventory – the "good boys," are Denmark, the UK and Germany, and the "bad are Italy, Greece and Ireland. State aid to manufacturers as a percentage of value added is 15.8 per cent in Italy, against just 1.7 per cent in Denmark. Italy gives about five times as much aid as France, the UK or Germany. These discrepancies between member states are becoming even more marked. In some countries, the volume of state aid is falling sharply; in the five years from 1981 to 1986 the UK has cut manufacturing aid in real terms by over a third to Ecu2.5bn, while Italy has been steadily increasing it to Ecu23.8bn.

The survey unearthed a whole array of different types of aid, from straightforward grants and tax reductions to soft loans, equity participations and guarantees. Because of the difficulty of tracing some more opaque forms of aid, the real picture may be worse than the Community figures suggest. Not all countries are equally good about informing the Commission about the aid being granted. Last year, Brussels took action against five countries, including France, Italy and Greece, for going ahead with aid schemes without prior permission.

The reasons for giving the aid are very distinct. In West Germany, for example, most of the aid is for Research and Development and small and medium-sized companies. In France, by contrast, where there is almost no regional policy, and few special R and D schemes, most aid is the counterpart of a generally interventionist industrial policy.

AID TO MANUFACTURING EXCLUDING STEEL AND SHIPBUILDING (Average 1981-86)

	% of value added	ecu per worker
Italy	15.8	5,951
Greece	13.9	–
Ireland	12.3	3,741
Belgium	4.5	1,373
Netherlands	4.1	1,419
France	3.6	1,223
Luxembourg	3.5	1,079
UK	2.9	757
W Germany	2.9	940
Denmark	1.7	609
EC average	5.5	1,774

Source: EC Survey of State Aid

The UK's aid centres mostly on R and D and export grants to third countries, with assistance to "lame ducks" and regional aid now a fairly small part of the whole. Out on its own, Italy remains a prodigious provider of subsidies on almost all fronts. Eventually, the Commission's aim is to establish a common framework under which aid being granted nationally slots into broader Community policies. This will involve not simply looking at each case singly, but at totals for countries and regions, to make sure that efforts in one country are not negating those made in others.

As a first step to tidying up the mess, three areas have been identified for priority treatment: general investment schemes, exports, and nationalised industries. In the case of investment schemes, the Commission is doubtful whether there should be any role for state aid at all, as the simple act of investment should not require a subsidy; if the object of the investment deserves aid, then, the Commission believes, this can be granted directly.

The question of exports is more difficult. The Treaty of Rome requires member states to harmonise their aid packages for exporters, and gives the Commission power to act if export aid is distorting competition within the Community. Until now, Brussels has concentrated its effort on schemes that cover aid within the Community, but has now decided to broaden its focus to include grants for exports going outside the Community, checking for any anti-competitive effects they may be having within it.

The question of nationalised industries is the most sensitive of all, and it is not surprising that most of the recent clashes with member states have been in this area – witness Renault, Alfa Romeo and Finsider.

Sir Leon Brittan has said frequently that publicly-owned companies must be put on an equal competitive footing with private companies – but it is difficult to see this happening as long as governments continue to help their big state-owned loss-makers.

More power for Italian central bank urged

By Sari Gilbert in Rome

MR Carlo Azeglio Ciampi, Governor of the Bank of Italy, has urged an increase in the powers of his country's central bank.

Mr Ciampi told students of the Higher School of Public Administration that the process of European integration made necessary the removal of current limitations on the bank's autonomy in monetary policy.

Mr Ciampi complained that Italy was one of the few industrialised countries in which changes in the discount rate are decided by the Treasury Ministry rather than the central bank. In view of the reduction of the obligatory reserves required of Italy's banks, this mechanism would "appear increasingly anomalous and prejudicial to monetary control."

The state "must be able to draw on the savings of other operators, to generate from within, the resources necessary to service the debt, capital and interest," he added.

The strains on monetary policy caused by the process of European integration would require greater flexibility and therefore greater autonomy.

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Drive to end telecoms deadlock

By William Dawkins and Hugo Dixon in Paris

FRANCE has launched a diplomatic drive to resolve a deadlock over an ambitious European Commission plan to boost free competition in the Ecu75bn (£54bn) EC market for telecommunications services from 1993.

French officials feel sure of winning agreement from all EC member states, except the UK, on a compromise plan at an extraordinary ministerial meeting of the Twelve, to be chaired by Mr Paul Quilès, France's Telecommunications Minister, on December 7.

Ministerial advisers will meet in Paris at the end of this week to discuss the French scheme, designed to resolve a split between those for and against letting private companies compete against public monopolies in providing basic data communication services, the fastest growing part of the market.

It would allow private competition in basic data transmission – the simple transport of computer files down telephone lines – subject to strict licences issued by national telecommunications authorities, much heavier conditions than in the Commission's liberal plan.

Mr Quilès is also likely to hold talks with Mr Christian Schwarz-Schilling, West Germany's Telecommunications Minister. French officials said Germany had almost been won round to its compromise position. Agreement between the two countries would be further evidence of the effectiveness of the Franco-German relationship.

It would isolate the UK, which had been relying on West Germany as its main ally in pressing for a more liberal regime than that proposed by the French. The other two liberal countries, Denmark and the Netherlands, are open-minded on the compromise, according to French officials. If EC governments fail to agree what kind of liberalisation they want, the Commission plans next April to invoke a little-used article of the EC treaty allowing it unilaterally to impose its own proposals.

Fresh bid to form Greek government

GREECE'S political leaders make a last-ditch effort today to form a government of national unity, to avert another election next month, Kerin Hope reports from Athens.

The three leaders agree an all-party government would best solve the deadlock following inconclusive November 5 polls. But Mr Constantine Mitsotakis, whose conservative New Democracy Party fell three seats short of absolute majority, opposes a plan backed by the Socialists and Communists for the new government to promise electoral reform.

The proposal would give the Communists and Greens more seats, making it harder for one party to win outright at the next election. Mr Andreas Papandreou, the former Socialist Prime Minister, has so far failed to persuade the lone Green deputy to back a left-wing coalition controlling 151 seats in the 300-member Parliament.

'Death squad' row

A row over the existence of an official South African death squad grew yesterday, when a third South African policeman alleged a squad had killed anti-apartheid leaders between 1980 and 1982, Reuter reports from Cape Town.

The Johannesburg Sunday Times said a former police constable admitted he helped kill the black civil rights lawyer Griffiths Mxenge in 1981. The claim supports charges by an ex-police captain that he headed an official police death squad. The government has not yet responded to calls for an inquiry.

Sudan talks soon

Sudan's military government and rebels agreed to hold peace talks next month as the ruling junta showed growing confidence in its grip on power, Reuter reports from Khartoum. Former US President Jimmy Carter has said in Nairobi that Sudan and the Sudan People's Liberation Army had agreed to talks there on December 1.

SHIPPING REPORT

Mideast tanker demand down

DEMAND in the Middle East Gulf tanker market fell substantially last week, but rates remained relatively steady. Brokers said the slowdown was probably caused by inventory building following rising Gulf oil production, Kevin Brown reports.

Only nine or ten Very Large Crude Carriers (VLCCs) were reported fixed out of the Gulf, less than half the usual number.

E.A. Gibson said the vessels represented less than 8m dw tonnes, leaving more than 20 ships of some 5m dwt available for fixing to the end of the month.

NITC concluded a vessel for 280,000 tonnes of crude loading before the end of the month at Kharg for the West at Worldscale 75.

In the dry cargo market, demand for Panamax tonnage was said to be firm.

WORLD ECONOMIC INDICATORS

RETAIL PRICES (1985=100)

	Oct '89	Sept '89	Aug '89	Oct '88	% change over previous year
Japan	107.1	106.0	105.0	103.7	+3.3
Netherlands	102.1	102.0	101.5	100.7	+1.4
W Germany	104.7	104.5	104.2	101.4	+3.3
UK	124.2	123.3	122.4	115.8	+7.3
France	113.6	113.3	113.0	109.8	+3.5
Belgium	108.5	108.4	107.8	104.7	+3.6

	Sept '89	Aug '89	July '89	Sept '88	% change over previous year
Italy	124.8	124.2	123.9	117.4	+6.3
US	116.2	115.9	115.7	111.4	+4.3

Source: (except US) Eurostat

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The Council of The Stock Exchange has agreed to admit the Warrants to the Official List and such admission will become effective and dealings in the Warrants will commence on 20th November, 1989.

Details of the Warrants are available in the statistical service maintained by Extel Financial Limited and copies of the Circular to Shareholders dated 11th October, 1989 containing, inter alia, details of the Warrants may be obtained during normal business hours up to and including 22nd November, 1989 from the Company Announcements Office of The Stock Exchange, 46-50 Finsbury Square, London EC2A 1DD and during normal business hours on any weekday (Saturdays excepted) up to and including 4th December, 1989 from:

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20th November, 1989

UK NEWS

Employers urge package to encourage investment

By Charles Leadbeater

THE Confederation of British Industry, the employers' body, yesterday called on the Government to avoid income tax cuts in next year's budget and instead introduce a package to encourage investment.

Sir Trevor Holdsworth, the CBI president, made the call after warning that the economy was "delicately poised" after the recent rise in base interest rates to 15 per cent.

Speaking on the eve of the CBI's 13th annual conference, which opens today in the northern town of Harrogate, he said it was vital to maintain the momentum for higher investment to ensure the UK's competitiveness in the single European market. He said 1990 would be a slack year for industry although manufacturing output would continue to grow, especially in export markets.

The CBI's plan to draw up the tax package reflects concern that investment may suffer badly unless action is taken to offset the effects of tighter monetary policy.

The CBI proposals will focus on raising corporation tax allowances. It said this would have only a small short term cost as corporation tax is collected in arrears. Sir Trevor said the move would nevertheless send a signal to business that it could keep investment going.

CBI's economists estimate that Britain's corporation taxes collect twice the amount which is taken in West Germany as a proportion of GDP.

Mr John Banham, the Confederation's director general, said the budget proposals would also examine how electricity pricing, a cut in the uniform business rate, to be introduced across Britain by next year, and special investment measures could help.

Mr Banham said income tax cuts would stimulate consumer demand, regenerate inflationary pressures and thus delay reductions in interest rates.

Sir Trevor said the CBI wanted "the very earliest possible cut in interest rates."

He said that they should be reduced as soon as it was clear that excess demand had been squeezed out of the economy and inflation forced on to a downward path.

Background, Page 12

Work practices, shorter hours top the agenda

Michael Smith on Ford pay talks

WHEN PAY talks covering 32,000 Ford manual workers began last month, the company decided to try to break the tradition of protracted negotiations.

Anxious to avoid the series of unofficial strikes which plagued the last talks two years ago, it tabled an offer which union leaders admitted was "higher than expected" and shortly afterwards raised the suggested increases to a level that workers in other industries might have found difficult to refuse.

Employees are unimpressed. At a series of meetings around the country, they have voted solidly against the offer of 9.5 per cent in the first year of a two-year deal and inflation plus 2.5 per cent in the second.

At a strategy meeting this morning, union leaders may seek more talks but they are more likely to opt for balloting members on strikes. Either way, there are complex issues, including working hours and changed working practices, to be discussed before a settlement is reached.

The next few weeks will increase anxiety levels not only among Ford executives, worried about the unofficial stoppages which have already punctuated the talks, but also for thousands of other manufacturing companies whose pay and conditions negotiations are traditionally influenced by Ford settlements.

High on their list of concerns will be Ford's response to the unions' demands for a four-hour reduction in the 39-hour working week. Employees have unsuccessfully sought reduced hours for years but this time the demand is being launched at at time when strikes for working week cuts are being mounted or planned at engineering plants nationwide.

A survey earlier this year by unions at Ford found that members rated the hours issue as second on their list of priorities next to pay. A few years ago it would have been way down the list.

Ford is not part of the Engineering Employers' Federation, members of which are the main focus of attack in the Confederation of Shipbuilding and Engineering Unions' hours campaign. However, the two lead negotiators for the unions at Ford – Mr Jack Adams of the TGWU general Workers' Union and Mr Jimmy Airlie of the AEU – are both CSEU executive members and it is difficult to see how they could recommend a deal unless the company were to drop its resistance to hours reductions.

The problem for Ford is that a 35-hour week would add 11 per cent to its pay bill, even before any general increase was agreed – and this at a time when the company wants to increase the productivity levels of British plants to a level closer to that of its European plants.

As part of the productivity drive, Ford wants to consolidate on the flexibility concessions it has won in the last two pay deals by setting up "integrated manufacturing teams" in the most technologically advanced areas of its plants.

The teams would include a mixture of both skilled and semi-skilled workers. The skilled workers would be paid an allowance of 5 per cent of standard grade rate but in return would be required to perform production functions as well as their specialist roles.

In addition the company plans to introduce an allowance of 5 per cent of grade rate to electricians who are trained and successfully tested on certain Ford training modules, which could lead to some employees winning 19.5 per cent pay rises. It also intends to increase the allowance for the company's 9,800 production line workers from 2 to 5 per cent of standard grade rate in exchange for unspecified changes in working practices to be agreed locally.

The unions have indicated that they are willing to discuss the proposed changes, but the talks have so far concentrated on basic pay rises and touched little on productivity and grade rate rises.

A further issue to be tackled is the concern among skilled workers about the erosion of differentials between their pay and that of less skilled employees. The creation of a single integrated pay structure could help ease their concern and move the company that both it and the unions are seeking towards harmonising conditions between blue collar and white collar workers.

At the time of the last pay deal, it was envisaged that the structure could be in place for these negotiations. The company now sees implementation being part of a 1991 deal.

Public vigilance call follows weekend of IRA bombings

By Ralph Atkins, Kieran Cooke and Our Belfast Correspondent

THE WEEKEND bombings in which three British soldiers were killed and another and his wife seriously injured have caused fears that the IRA is planning a pre-Christmas campaign throughout the UK.

The IRA yesterday claimed responsibility for both the bombings and for last week's attempted car bombing in London of Lt Gen Sir David Ramsbotham, Commander of the UK Field Army.

Mr David Waddington, the Home Secretary, has renewed his warning to all members of the public to be extra "vigilant and alert" and security at British military bases is expected to be further tightened.

Mr Peter Brooke, Northern Ireland Secretary, will be briefed by police and army commanders today on the land mine blast which killed three members of the Parachute Regiment at Mayobridge, near Newry, County Down, on Saturday.

The dead were Lance Corporal Stephen Paul Wilson, Private Donald Cameron Macaulay, and Private Matthew Edward Marshall. A fourth soldier is seriously ill.

In the other weekend attack, staff sergeant Andrew Mudd lost both legs and his wife was seriously injured when their car exploded near the married quarters of Colchester barracks in Essex, south-east England.

Mrs Margaret Thatcher, the British Prime Minister, and Mr Charles Haughey, her Irish counterpart, discussed the IRA bombings during the weekend European Community summit in Paris.

On his return to Dublin yesterday Mr Haughey said Mrs Thatcher had stated that there must be no safe haven for terrorists who carried out such bombings.

Mr Haughey said he had pointed out that both of the weekend's bombings had been carried out in areas controlled by the British security forces. He said he told Mrs Thatcher that he was unaware of the existence of any safe haven for IRA terrorists.

The unfortunate lesson that British security forces have learned yet again from the weekend of IRA violence is that the gruesome military conflict has to be fought constantly. That, however, is about the only strand that can be drawn conclusively from the bombs at Mayobridge, near Newry, and Colchester.

The reaction of the Government has been to urge greater vigilance to caution that worse may be to come in the run-up to Christmas.

Saturday's bombing of the three soldiers brings to 58 the number of people killed in political violence in Northern Ireland so far this year, 31 fewer than at the same time in 1988.

The weekend outrages followed the murders on Thursday of a part time soldier in the Ulster Defence Regiment and of a building supplies manufacturer on Wednesday.

Yesterday security forces defused a 50lb bomb contained in a hijacked van abandoned on the outskirts of Newry. It would have been enough to cause fatalities or serious injury.

Although a deliberate pre-Christmas crusade of violence cannot be ruled out, on the mainland there is no clear evidence that the terrorist strength has increased since the attack on the Deal barracks in Kent in September. Two units are thought to be operating at an arm's length from IRA chiefs in Ireland.

But such a week of attacks proves once again that the IRA remains a strong organised terrorist force.

Ambulance dispute escalates

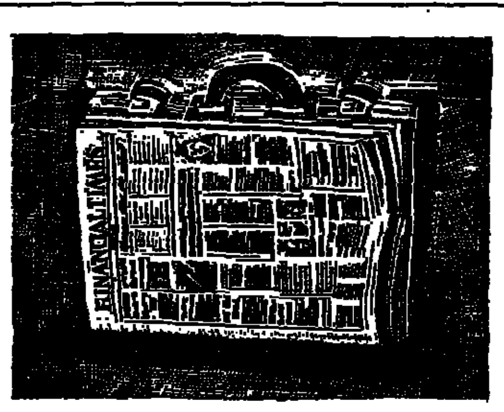
THE ambulance pay dispute escalated last night when senior controllers and control assistants at the headquarters of the London Ambulance Service refused to pass on emergency calls to the capital's police headquarters, writes Fiona Thompson.

Some staff were instead putting calls through to London's 71 ambulance stations, where crews, although suspended for refusing to use radios as management wished, were on duty and awaiting calls. But the LAS control room co-ordinator was putting most calls through to police headquarters by a facsimile machine.

The LAS staff had threatened to begin their action last Friday, but held off pending the outcome of talks that day between union leaders and Mr Duncan Nichol, National Health Service chief executive, aimed at ending the 10-week-old dispute over a rejected 6.5 per cent pay offer.

Talks collapsed with unions leaders accusing Mr Nichol of proposing nothing new. As a result, from Saturday morning the LAS control assistants refused to put calls through to police headquarters.

Ambulance workers have claimed 11.14 per cent and a pay formula which would trigger automatic pay rises and enable them to sign a no-strike deal. Mr Nichol on Friday offered 9 per cent over 18 months and £500 each for the 2,000 staff with special paramedical skills.



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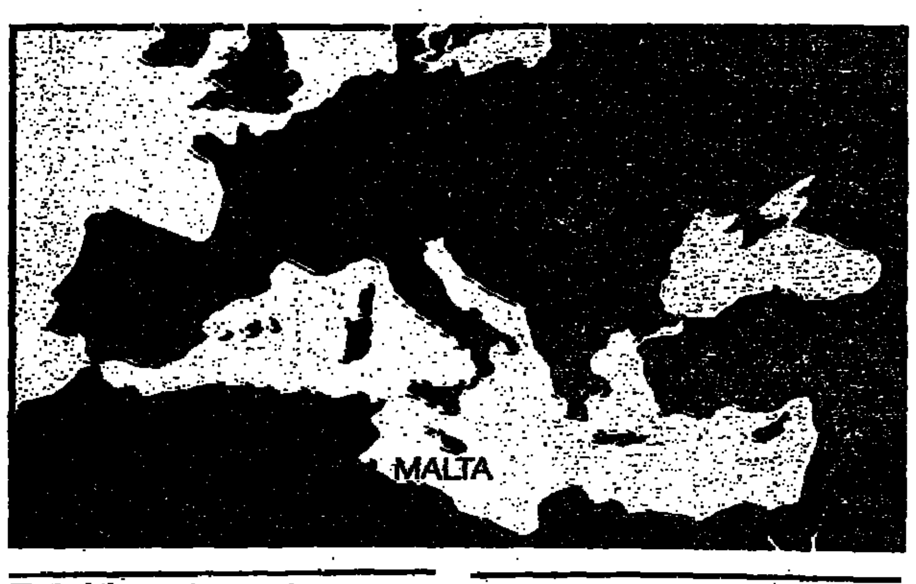

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UK NEWS

Challenge to EC Commission plan for regional funds

By Hazel Duffy and Anthony Moreton

THE EUROPEAN Commission is locked in dispute with the UK Government over the distribution of the Commission's regional funds.

Britain wants to be able to use the funds, for instance, to modernise the water industry in certain regions. The Commission is less keen.

Mr Bruce Millan, Commissioner for Regional Policy, wants to help to finance local enterprise agencies that support and advise small businesses, that would involve participation by local authorities, which the Government does not welcome.

The differences have been exposed in a series of meetings between Mr Millan, ministers and officials, to discuss the so-called Community support framework agreement, which will form the basis for the distribution of European funds over the next three years.

Mr Millan is in Cardiff today to meet officials from the Welsh Office and local authorities, who fear that Wales will suffer as a result of the shift in funds towards the poorest members of the Community.

Mr Nicholas Ridley, Trade and Industry Secretary, whose department is responsible for negotiating with Brussels on the regions, is believed, at a meeting recently with Mr Millan in Brussels, to have refused that funds be channelled where local authorities have an input.

The Commission also wants to use intermediaries, such as the Welsh Development Agency and the Highlands and Islands Development Board, in distributing the funds.

The growing sense of frustration between Mr Millan, former Scottish Secretary in the last Labour government, and the Government, is in contrast to the relative harmony in which agreements are being worked out with other member states.

The Community support framework must be drawn up with the help of the local and regional authorities in whose areas the funds will be used. They are designed to ensure that European money is spent in a more coherent way instead of being scattered on projects that national governments could have financed themselves.

Local and regional input into the Community support framework was agreed by governments when the decision was taken to double the European funds. The plan was to give underdeveloped and deprived parts of the Community a better chance to compete after 1992.

● Local authorities in Wales are worried in case road improvements that formerly qualified for European assistance may not now go ahead.

South Glamorgan says that Cardiff Docklands will suffer if it does not get help to build the £100m peripheral distributor road.

Bruce Millan: wants to aid local enterprise agencies

Heseltine speaks of aspirations

MR Michael Heseltine, the former Defence Secretary, spoke yesterday of the "huge honour" it would be to lead the Conservative Party, declaring that when he resigned from the Government he put himself "in the marketplace."

He was speaking during an interview with a US cable network, which was transmitted on the TVS political programme Agenda.

Mr Heseltine said that when he resigned from the Cabinet in 1986 over the Westland Helicopters affair, "I had not the slightest intention of throwing away my career. My commitment was clear: I was not going to leave the Conservative Party and to that extent I put myself in the marketplace."

He continued: "You are not obviously likely to be recalled by the Prime Minister with whom you have disagreed. So what do you do? You follow the market. The market has been very kind to me."

Asked if he wanted to be Prime Minister, Mr Heseltine replied: "I think ambition is a very laudable human quality and if, in the service of the party, I had a chance to play the ultimate role, it would be a huge honour."

News groups likely to invest in paper mill

By Maggie Urry

FINAL approval for a £140m newsprint mill at Gartcosh, near Glasgow, is expected to be announced shortly by the backers of the scheme. Unusually, newspaper publishers are expected to invest in the mill.

The North British Newsprint mill is being built by Abitibi-Price, a large Canadian forest products group, but a majority of the equity in the project could be held by publishers.

That is an unusual move in the UK, although in North America Abitibi-Price has two mills which are joint ventures with publishers, one with the New York Times and the other with the Thomson Corporation, the Canadian publishing and travel group.

Abitibi-Price said it could not comment on the North British Newsprint mill or on the arrangements it has to supply newsprint to its joint-venture partners in North America from the mills in which they invest.

It is expected that the publisher partners will buy newsprint from the North British Newsprint mill. Other newsprint buyers would be concerned if the publisher investors received preferential treatment in terms of either price or supplies.

However, as one buyer pointed out: "If they get newsprint cheaper they will soon be found out. There are no secrets in this trade."

A decision on another proposed newsprint development, a joint venture between Reedpack, the paper, packaging and office supplies group, and Daishowa Forest Products, a Japanese-owned Canadian paper company, is further off. That would be sited in Aylesford, Kent.

Mr Peter Williams, chief executive of Reedpack, said the project had been found to be operationally feasible, but a financing package had to be put together. He said: "With 15 per cent base rates it is going to be hard to justify."

The North British Newsprint mill will use recycled fibre as its main raw material, with Stirling Fibre, a waste-paper collector, supplying the mill. It will have a capacity of 200,000 tonnes of newsprint a year.

The idea came from Stirling, which first brought in a Finnish partner, Kajaani. That company pulled out when it was taken over, and Abitibi-Price was brought in.

The Reedpack mill will also use recycled fibre as its raw material. Reedpack owns Maybank, Europe's largest waste-paper merchant.

Warning on EC television rules

By Raymond Snoddy

THE FUTURE of television will be significantly affected by the European Commission's directive on broadcasting, according to a report by consultants Coopers & Lybrand.

The report, Television in 1992, warns that, in winning approval for the directive, the Commission has made broadcasting part of Community law.

The UK has been slow to realise the effect of the directive on its audio-visual industries partly because responsibility for film, television and video was divided across three ministries: the Home Office, the Department of Trade and Industry and the Office of Arts and Libraries.

The report, it is claimed, is the largest and most comprehensive published on the subject. It finds that most European companies are not paying enough attention to what the Commission is doing.

It says: "The Commission has already set the rules of the game on a wide range of matters, from programme quotas to advertising and to showing of films on TV. Its influence will increase through 1992 and beyond."

The report points out that community law already contradicts UK law in several respects, and that the differences between the two in the areas of television and film companies are likely to increase.

It says deregulation in the European audio-visual industry is a myth and that regulation is growing rather than diminishing. "Industrial policy aimed at encouraging more competition is a key factor in requiring more regulation to ensure fair competition."

Television in 1992: a Guide to Europe's New TV, Film and Video Business. By William Field, Coopers & Lybrand, Plumtree Crt, London EC4A 4HT. £95.

Japan's help sought with securities control agenda

By Peter Riddell, US Editor, in Washington

BRITAIN and the US are to propose a three-way series of meetings with Japanese regulators to produce an agenda for international co-operation in the supervision of securities markets.

Mr John Redwood, the British Corporate Affairs Minister, said he received "a very positive" response to the idea during discussions in Washington on Friday with Mr Richard Breeden, the chairman of the Securities and Exchange Commission, who was "thinking along the same lines."

The proposal will now be taken up with the Japanese authorities in the hope of getting meetings under way next spring.

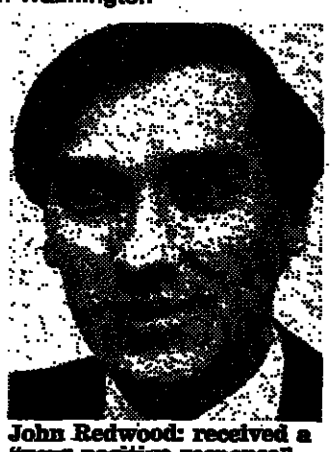
The aim is to inject momentum and direction into existing discussions on international standards for the regulation of securities markets.

That applies particularly to increasing co-operation in setting regulations on insider trading and on disclosure requirements.

Mr Redwood's belief is that by setting up three-way meetings with US and Japanese regulators, thus covering the world's largest markets, it will be possible to propose an agenda for advancing regulation on an international basis.

Mr Redwood and Mr Breeden agreed during their talks to continue and develop the existing UK-US memorandum of understanding on exchanges of information between regulators.

During separate talks at the Commodity Futures Trading Commission, Mr Redwood received some reassurance that the commission did not want to advance extra-territorial claims in its regulatory activities affecting US customers of London markets.



John Redwood: received a "very positive response"

Department of Trade and Industry officials discussed with the commission the complaints of some London commodity traders about an agreement reached between US and British regulators, particularly in relation to the distinction between solicited and unsolicited business.

There was apparently an acceptance on the US side of a shift from segregation of business to bank guarantees, although the detailed issues will be pursued by the relevant agencies such as the Association of Futures Brokers and Dealers, and the Securities and Investment Board.

Ratners named as star in buoyant jewellery sector

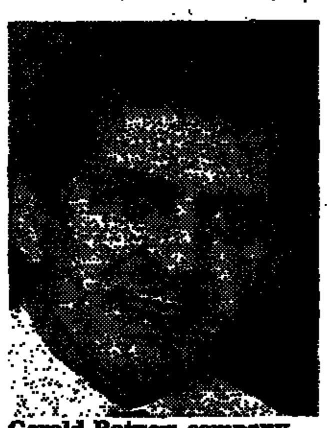
By Maggie Urry

WHILE the rest of retailing is in the doldrums, the jewellery sector is the most buoyant area of the industry, says a report from Verdict Research, the retail research group. The market was worth £2.2bn in 1988 and Verdict reckons it will have grown by 18 per cent during 1989.

The reason for this is a fundamental change in customers' perceptions. Whereas jewellery used to be seen as a rarely bought luxury item, it has become a fashion purchase. One in three adults now buys at least one item of jewellery each year, compared with 15 per cent at the start of the 1980s.

Verdict says the credit for the growth in the market should go to Ratners, the retail group that has expanded from 130 shops to over 1,000 UK outlets in the last five years. Ratners' market share has risen over the period from under 3 per cent to 27.5 per cent, Verdict estimates.

Behind Ratners' "brash and audacious" public image is a "highly sophisticated and professional retailer which takes few risks." Ratners has led a trend towards modern management techniques within jewellery retailing, such as more efficient stock control, the use of electronic point-of-sale systems, and providing incentives for store managers.



Gerald Ratner: company praised for market growth

After Ratners, Argos is the second-largest competitor, with an estimated 5.6 per cent market share through its Elizabeth Duke departments. Otherwise the market remains fragmented, and Verdict sees a trend to fewer shops.

Verdict on Jewellers. Verdict Research, 112 High Holborn, London WC1V 6JS. £495.

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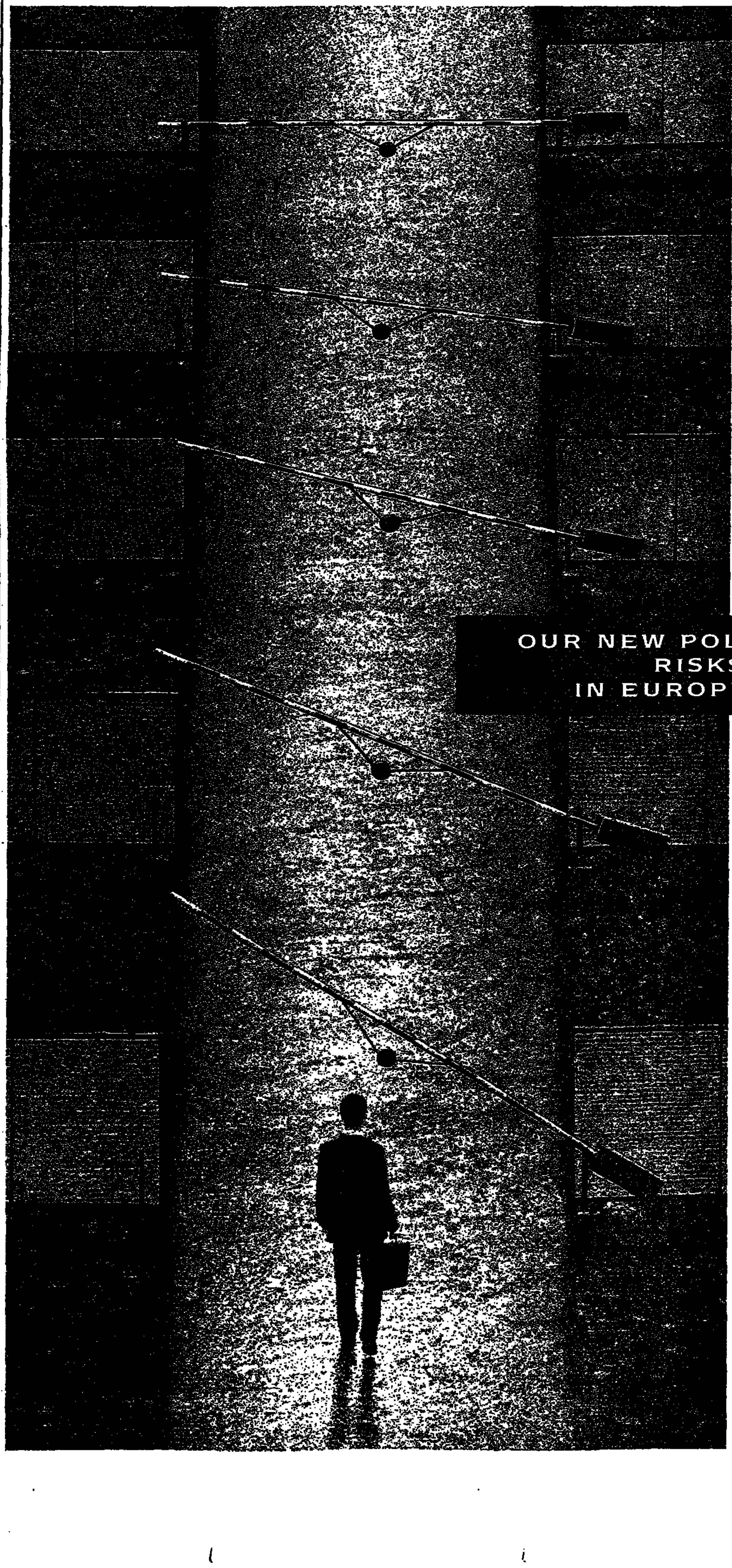

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FTI

TRADE INDEMNITY PLC

Application for Hinkley C may go ahead

By David Green

THE Central Electricity Generating Board may proceed with its planning application for the Hinkley Point C nuclear power station in Somerset, in spite of the decision by Mr John Wakeham, Energy Secretary, that no new plants will be built until a review of nuclear economics is carried out.

A full meeting of the CEGB board discussed the subject last week and talks have since been held between senior officials and Mr John Collier, who has been appointed chairman of a new state company that will run Britain's nuclear power stations.

Mr Michael Barnes, QC, the inspector conducting the Hinkley inquiry, has given the board until tomorrow to decide whether it wishes to proceed with the application he has been examining since the hearing opened in October last year. Both the board and Mr Collier believe an option should be maintained on expanding nuclear power if it becomes economic to do so in the future.

The Department of Energy is also being consulted over the future of the Hinkley application.

The CEGB had planned to build four pressurised water reactor (PWR) nuclear power stations, including Hinkley C, by the year 2000 at a total cost of £7.1bn. Sizewell B, the first plant, is under construction in Suffolk.

However, 11 days ago Mr Wakeham told the House of Commons that, because of high costs, nuclear power was to be withdrawn from privatisation and that the three further PWRs would no longer be needed to comply with a non-fossil-fuel requirement in the new Electricity Act.

Anti-nuclear groups expected that applications for Hinkley C, Wylfa B in Anglesey, and Sizewell C would be withdrawn immediately.

Although a final decision has not been taken, senior board officials believe there are grounds for the application to go ahead on the basis that any consent granted would provide a future option for the new state company.

The board has been promoting the PWR since the 1970s and has invested considerable effort and sums of money into its development.

A significant part of the cost is attributed to public inquiries. The Sizewell B hearing from 1983 to 1985 cost the board £25m. The Hinkley inquiry has already cost £10m.

John Wakeham: review awaited

DoE proposes scheme to control council investment of surplus cash

By Katharine Campbell

THE Department of the Environment has sent proposals for consultation to local authorities, setting limits on how they may invest their surplus cash.

The DoE said: "Until the mid 1980s, local authorities operated satisfactorily with cash surpluses amounting to less than £1.5bn." The present total is £9bn.

"That," the DoE said, "is far more than they need to carry out their statutory functions, which do not include investing for profit in the financial markets."

The new, short list of financial instruments deemed suitable for council investment will be included in regulations amplifying the Local Government and Housing Act enacted last week.

The legislation, which sets the framework for the new capital finance system that comes into effect in April 1990, refers to "authorised investments" and fits the tone of the Government's attempts to reduce local authorities' financial market dealings.

The approved instruments include bank certificates of deposit, eligible bank bills, gilts, building society deposits and loans to nationalised industries and to other local authorities. Shares, of which councils have significant holdings, are excluded.

The DoE estimated that about £500m of the total now held would fall outside the proposed authorised investments, much of which is held in equities. Investing in non-approved instruments is not proscribed; however, the penalty is that, once redeemed, they are treated as a capital receipt and hence, under the new legislation, the bulk must be set aside to repay borrowings.

Councils' activities in the money markets have been in the spotlight since the High Court ruling this month that Hammersmith and Fulham Borough Council was not empowered to enter into interest-rate swaps. The DoE, however, says the present proposals are not directly related to the case.

The DoE has indicated that it will await the outcome of the January appeal of the High Court decision before deciding whether, and, if so, how local authorities should be allowed to use interest-rate swaps, generally tools of debt management.

The proposed investment restrictions arise because the Government has little sympathy with local authorities that have amassed substantial cash balances through the sale of council houses and other assets but still borrow up to their maximum quotas of funds at preferential rates from the Public Works Loan Board.

The new list is similar to the original draft legislative proposals drawn up in July 1988, before the DoE knew about Hammersmith's activities, although several classes of investment are to be restricted to maturities of less than a year, with the aim of further reducing risk.

At a meeting of government officials and local authority associations on October 30, a Treasury official pointed out that there were "broader macroeconomic issues raised by the level of local authority balances."

The main political uncertainties surrounding local authorities' financial dealings have made some bankers wary even of accepting deposits. In the light of the Treasury's apparent wish to reduce the cash surpluses they are beginning to fear that almost any financial market dealing might be deemed *ultra vires* or beyond councils' authority.

Shake-up likely in TSB retail banking

By David Barchard

TSB BANK, the sixth-largest UK bank, is expected to announce wide-ranging plans to restructure its retail banking operations.

The restructuring is likely to involve the loss of several jobs. The move is the last in a series of operations aimed at transforming TSB, a federation of loosely linked savings banks until its stock market flotation three years ago, into an efficient, streamlined organisation capable of competing with the other large clearers.

Last spring, Sir Nicholas Goodison, TSB chairman, swept away almost all the regional boards of the bank, shedding 100 regional directors. Although there are still national boards for Scotland, Northern Ireland, and the Channel Islands, TSB has become much more monolithic than seemed likely at the time of the flotation.

Complaints are growing in Scotland that the Scottish arm of the bank has lost most of its real autonomy. However, defenders of the changes claim that, in some ways, TSB Scotland's influence has grown. Some parts of the north of England now report to centres in Scotland.

The main thrust of this week's announcement will concern cost-cutting. When TSB announced poor interim results early last summer, one of the reasons was a costs-to-income ratio of 75 per cent, far above that of any of its main competitors.

At the same time, Mr Peter Ellwood, the former chief executive of Barclaycard who was brought into to head TSB's retail banking operations last summer, is likely to announce moves to make branch operations more profitable by enhancing their role as sales outlets for insurance and other financial services.

Trade insurance to cover home and export credit

By Peter Montagnon, World Trade Editor

TRADE INDEMNITY, the credit insurance company which has been expanding into export credit insurance, has launched a new product that, for the first time, will offer domestic and export credit cover in one policy.

The move underlines an emerging trend for the distinction between export and domestic credit insurance to become blurred as the industry adapts to the 1992 single European market.

However, the Export Credits Guarantee Department, for whom Trade Indemnity is a main competitor in export credit insurance, would be unable to match the product under its present status because its charter confines it to insuring only exports.

Trade Indemnity's move may thus put additional pressure on the Government to agree to spin off ECGD's short-term insurance division into a separate public company as recommended in the recent Kemp report on its future, industry executives said.

Trade Indemnity said its market research had shown a need for this kind of product. Its customers were seeking to cover all their needs in one policy and 75 per cent of decision-makers were responsible for both export and domestic credit insurance.

Ofgas launches campaign for more efficient boilers

By Steven Butler

THE OFFICE of Gas Supply (Ofgas), the gas industry regulatory body, is launching a campaign to promote installation of high-efficiency condensing boilers, which have an 85 per cent efficiency rating, compared with 70 per cent for the typical modern gas boiler.

The efficiency rating measures the amount of heat produced from burning gas that is transferred to radiators or hot water cylinders.

The higher efficiency derives from a heat exchanger that has a much larger surface, causing gases produced in the combustion process to cool rapidly and water to condense.

The boilers cost about £200 more but Ofgas calculates that they would pay for themselves over a number of years.

A detached house in the north would cost £761 in annual gas charges with an ordinary modern boiler, compared with £633 with a condensing boiler. In a London flat, the comparable costs are £209 and £178.

FINANCIAL TIMES CONFERENCES

THE FOOD AND DRINK INDUSTRY IN EUROPE
London, 28 & 29 November, 1989

The 1989 FT Food and Drink Industry conference features papers by Ray Mac Sharry, Brussels Agriculture Commissioner; John Gummer, MP, the new British Minister and industry leaders including Camillo Pagano of Nestlé; Professor David Stout, Unilever; George Bull, International Distillers & Vintners; Michael Jordan, PepsiCo Worldwide Foods; Michael Foster, Courage Limited; Anthony Greener, United Distillers plc and Domenico Barili of Parmalat SpA.

This year's meeting will look at restructuring for 1992, developments in the actual marketplace of Europe and the crucial issue of safety and standards. Riccardo Perissich will comment upon the Commission's design for the Community Internal Market and how it will affect the food and drink industry.

WORLD BANKING: EUROPE AFTER THE DELORS REPORT
London, 30 November & 1 December, 1989

The keynote speaker at this year's World Banking Conference will be Jacques Delors, President of the Commission, who will review developments since the publication of his Report on European Economic and Monetary Union. Peter Lilley, MP, the new Financial Secretary, will discuss the attitude of the British Government and John Smith, Shadow Chancellor of the Exchequer will give an Opposition view. A number of experts including some enthusiastic for the Delors blueprint, others reserved and others opposed, will speak on the Report and possible alternative approaches. They include Samuel Brittan, Lord Jenkins, Dr Roland Vaubel, Giles Keating and Professor Patrick Minford. Alan Clements of ICI will give the view of a leading European corporate finance officer and Stanislas Yassukovich who co-chairs with Lord Roll will address the conference on the impact on London, a subject that also features a contribution by Peter Leslie of Barclays. After the recent Spanish decision to join the EMS, there will be particular interest in the contribution by Miguel Boyer of Cartera Central.

COMMERCIAL AVIATION IN THE ASIA PACIFIC REGION TO THE END OF THE CENTURY AND BEYOND
Singapore, 12 & 13 February, 1990

By the year 2000 the Asia Pacific region is expected to be accounting for some 25% of the entire world air transport output, generating a massive growth in the entire air transport infrastructure of the region. This Financial Times conference brings together a most distinguished panel of speakers to assess this growth and examine the challenges and problems it will generate.

Contributors include: Lim Chin Beng, Sir Colin Marshall, Peter Sutch, Mitsunari Kawano, Dean Thornton, Louis Harrington and Cecil Rosen.

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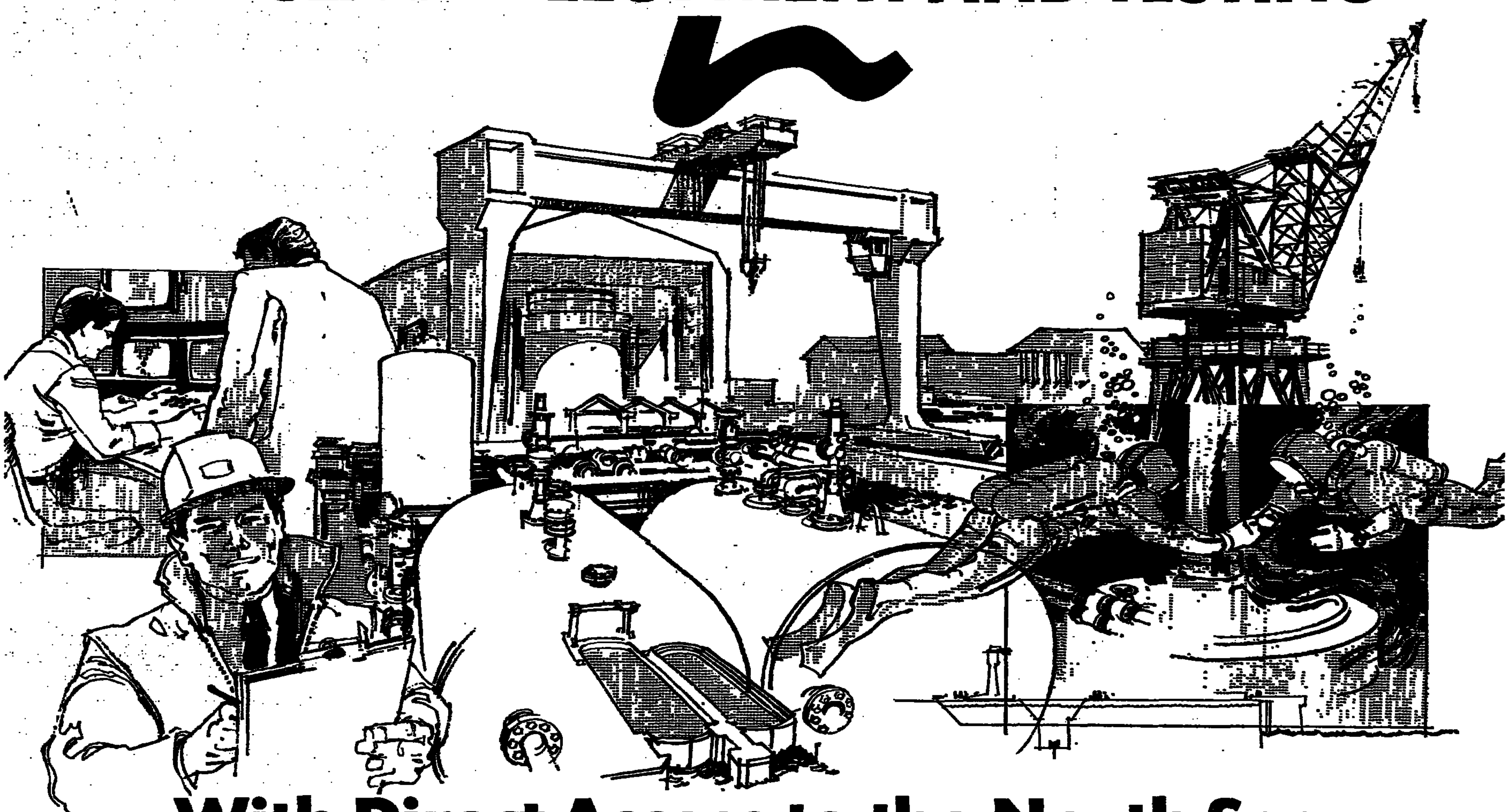
THE WORLD'S LEADING CENTRE FOR SUBSEA DEVELOPMENT AND TESTING



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The Ocean Technology Centre provides a controlled, repeatable subsea and seabed environment. It will enable engineers, operators and contractors to develop and test equipment, systems and techniques under close observation, and to monitor and record performance – for both development and marketing objectives.

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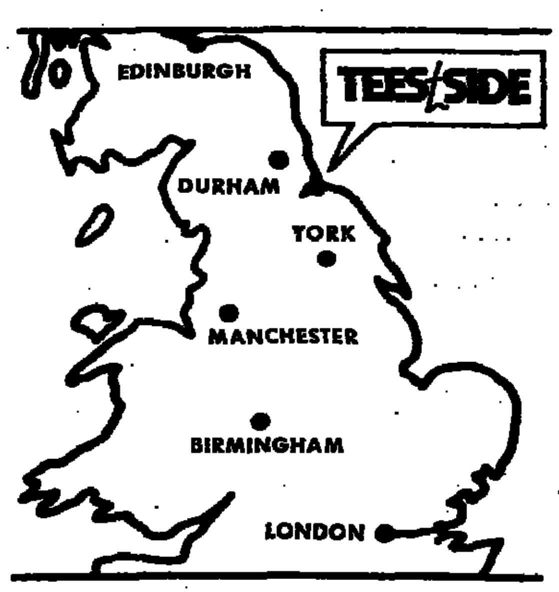
Already, subsea technology specialists Goodfellow Associates with eight major oil company sponsors, are using one of the OTEC basins to test their GASP (Goodfellow Associates Subsea Processing) system which separates oil, gas and water and pumps them along separate pipelines.

The Ocean Technology Centre at the Tees Offshore Base – a major subsea research facility in the United Kingdom. Designed to test and prove equipment and engineering for the next generation of offshore hydrocarbons production systems.

To find out more contact:

Duncan Hall, Chief Executive, Teesside Development Corporation, Tees House, Riverside Park, Middlesbrough, Cleveland TS2 1RE. Tel: (0642) 230636 Fax: (0642) 230843.



TEESSIDE

Initiative Talent Ability

UK NEWS

Rivers authority to move London staff to Bristol

By Richard Evans

MOST OF the central staff of the National Rivers Authority, responsible for environmental regulation of the privatised water industry, are to be moved from London to the Bristol area next year, in spite of angry protests.

A small headquarters staff, including the office of Lord Crickhowell, the chairman, and departmental directors, will remain in London but the powerful quango, originally envisaged as small, already needs more space.

There are at present 6,500 employees responsible for river quality, land drainage, management of water resources, fisheries and navigation in the ten former regional water authorities in England and Wales that are about to be privatised.

The NRA said it was always assumed that the London headquarters on the Albert Embankment would ultimately have a maximum staff of about 60, and various locations for the additional staff had been studied. The Bristol area had been picked as the best option because of its easy accessibility to London and to many of the new water PLCs.

It is understood that when the move was announced to staff there was uproar because of the lack of consultation and the "dictatorial" manner in which it was done. Tempers have now cooled and a loss of key staff through resignations is not expected.

There is, however, another cause of concern among NRA staff. When they were recruited earlier this year from the former authorities, they were taken on at a range of salaries and with widely varying employment packages, which they assumed would continue. A more uniform structure is now being drafted and protests have been vocal.

One senior member of staff said: "The manner in which it has been done has been appalling and morale has been badly affected as a result."

Mr Ron Page, an NRA official, agreed that there had been internal difficulties over both the proposed move to Bristol and the development of a rational employment package, but those had largely been caused by presentation, he said. Once the reasons had been explained, they had been accepted.

The NRA will be one of the most powerful environmental agencies in Europe after the industry is privatised.

Its budget for 1990-91 was raised in the Treasury's Autumn Statement last week to £93m, an increase of more than £20m over the current year.

Machine tool orders fall

By Nick Garnett

SMALL component suppliers and subcontractors to large companies are beginning to shelve purchases of new production equipment as a result of uncertainties about the economy.

Mr Malcolm Taylor, managing director of Bridgeport, the biggest manufacturer of machine tools in the UK, says: "We have lost a considerable amount of our forward orders over the last three months."

Purchasing by large groups has not been affected and sales of Bridgeport's more expensive machines are still strong.

Mr Tony Balding, joint managing director of Beaver, a Norwich-based machine tool producer, says the equipment industry does not believe anything has changed since the Chancellor's Autumn Statement.

Beaver was now concerned about the UK market next year.

Output of machine tools in the UK last year was £845m at current prices against £644m in 1987. The Machine Tool Technologies Association is forecasting production of £978m this year.

Mood of confidence shows signs of dimming

As the CBI conference meets, Hazel Duffy finds uncertainty beside strength in eastern England

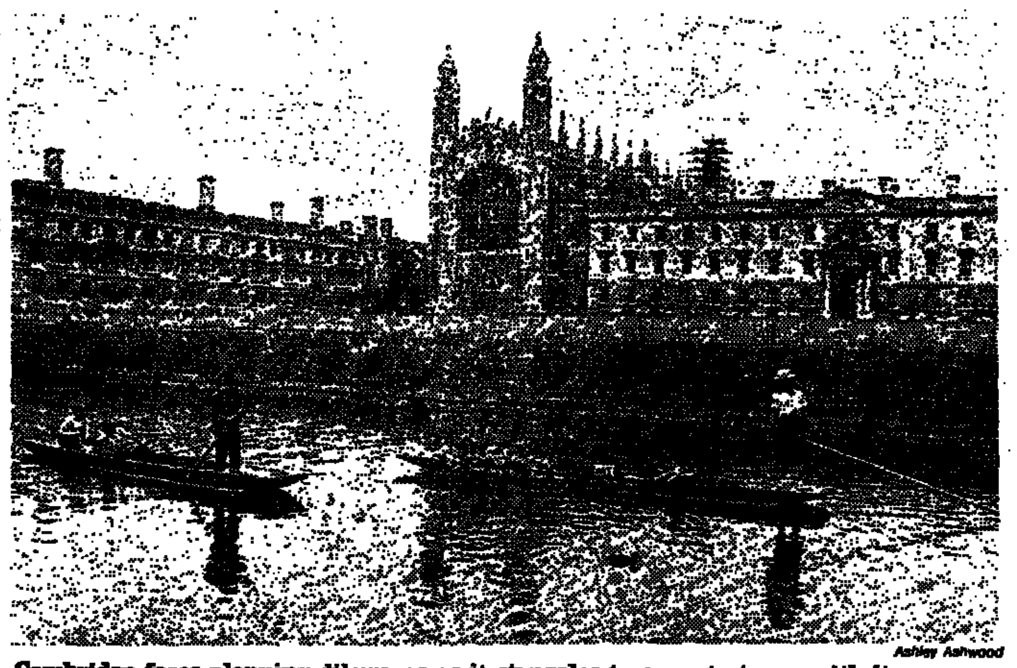
SUPPORT for Mrs Margaret Thatcher, the Prime Minister, by members of the Confederation of British Industry is not in doubt, in spite of the domestic difficulties in the Cabinet in the last few weeks. But the prospect of high interest rates until next summer and uncertainties over sterling are not far from any business thinking.

Difficulties springing from years of neglect in the education system and the lack of commitment by many employers to training are now a real concern to CBI members, who meet today in Harrogate, North Yorkshire, for their annual conference. In the wake of the miracle, Britain's employers are once again asking if lack of competitiveness is indeed terminal. Manufacturers worry about technological backwardness. Everybody worries about the consequences of poor planning.

It is particularly pertinent in the east and south-east of Britain. The CBI's Eastern region covers East Anglia, and the home counties Essex and Hertfordshire. In the second half of the 1980s, it has been the fastest growing region in the country.

Mr Ian Dixon, joint chairman and chief executive of design and construction group Willmott Dixon, is chairman of the CBI council for the region.

Growth of the company's activities in the area have more than outstripped the region's growth. Today, the levelling-out signals are clear. The effect of high interest rates has already been "dramatic" on house builders in the region, Mr Dixon says. His company is better insulated, building for housing associations and local authorities.


Ashley Ashwood

Cambridge faces planning dilemmas as it struggles to come to terms with its success

The big business of maintaining shops has been affected. Drops in High Street sales have led to refurbishment being postponed. The level of demand in the design part of the business indicates a sizeable downturn in construction projects next year. However, East Anglia has enjoyed such a momentum that it will stay relatively buoyant, Mr Dixon predicts.

Birmingham and its environs are where he sees the most construction growth, catching up while the south-east slows down. A new office will cater for the expected demand.

In the northern regions, he sees the return of civic pride inspired by the new and restored buildings. The process is finely balanced. Although there is some public subsidy, his concern is that high interest rates will cut off developments when the civic job is only half finished. "Very close monitoring of the effects of interest-rate policy is needed", he warns.

Mr Peter Henriksen, chief executive of Mills and Reeve, a big firm of solicitors in Norwich and Cambridge, likes to know what is on the minds of his firm's clients.

Many are smaller companies and tradespeople, worried about the size of the new business rate which will fall on their mats next spring.

Like many new East Anglians, Mr Henriksen moved to Norwich to get away from the congested capital, only to find East Anglian towns and villages under threat from pressures to expand. He would like to see "a more integrated approach to planning. There is nothing wrong with economic development, but a more structured approach is needed in East Anglia."

Planning topics turn up every week in Cambridge as the city struggles to come to terms with its success. Schering, the West Berlin-based chemicals group, has its UK head office and research and development laboratories in Cambridge. It is a good place to be to attract specialists in science, although house prices make things difficult for young graduates.

Schering's agro-chemicals plant sits to the south of the city, in green belt country. Other plants are in Cheshire and Cumbria.

The agrochemicals part of the business was formerly the joint Fisons-Boots venture, bought by Schering in 1983, and expanded. It claims joint number one position with ICI in the UK market. The main export markets are France and West Germany.

The environment and the future for chemicals in agriculture are constant concerns for such producers and Schering's public relations is geared to the "green science" formula.

More immediately, Mr J. Stables, finance director, is concerned with exchange rates and interest rates. His complaint on the former is the instability of currencies, and particularly the pound. "We plan forward when we have enough knowledge, but there is quite a strong argument now to leave it to the spot market" – such is the uncertainty. Moreover, chemicals sales to farmers are seasonal.

High interest rates would not stop Schering UK from investing in a big item of plant, Mr Stables says. Many manufacturers take the same view. But it might defer "ancillary investment".

The Swedish-based Esab group has spent £5m on new plant and a new roof on the plant at Waltham Cross, Hertfordshire. "Short-term interest rates have no effect", says Mr James Wilkinson, chief executive. "The key question is: is it a good investment?"

Esab is the world's leading manufacturer of welding equipment. It has been in the UK for 50 years, but expanded considerably through acquisitions in the early 1980s. Next year, UK turnover will total £80m.

The Hertfordshire plant, right next to the M25, formerly belonged to BOC. Manufacturing has been concentrated on that site and another in Skelmersdale, Lancashire.

Mr Wilkinson was a GKN executive for 18 years. Rationalisation and concentration are two processes with which he is very familiar, useful skills as the basic business of Esab is in decline. Less welding is done than in the days when heavy engineering was important in Britain, and there are new ways of welding now, too.

But the business is good if the costs are right. That means investing. More automation in the plant was one of the beneficiaries of the recently completed investment programme. Too little goes on elswhere, Mr Wilkinson says.

He remains a firm believer that the job for government is "to create the climate in which business can survive". He is saddened by British industry's inability to keep pace with robotics, and worried that little is being done to counter the shortage of specialist graduates, while bright people continue to prefer the City.

The confident mood in industry of the last few years has dimmed. It will take more than Harrogate to restore it.

Benefits of 1992 'greatly overrated'

By Nick Garnett

SUPPOSED benefits for British industry resulting from the integrated European market after 1992 have been "greatly overrated," says a report by the British Management Data Foundation, published today.

Gains for manufacturers would be marginal and British companies had to look at their competitive position in the global market rather than hoping for some automatic benefits from Europe after 1992.

National boundaries within the EC were not now the barriers to trade that they were often made out to be. Encouragement for a restructuring of European industry was misguided. Much of it would prove unnecessary, the paper says.

The foundation, set up by 11 companies to exchange management data, now examines changes that affect competitiveness. Its members include economists and planners from companies as diverse as GKN, Allied Lyons, ICI, Rolls-Royce and Unilever.

Mr Anthony Cowgill, the foundation's director, said yesterday that the paper reflected the views of those attending foundation meetings but were not necessarily shared by the companies themselves.

Pilkington, one of the foundation's member companies, declined to be associated with the paper's conclusions.

Industrial Society forced to cut 57 jobs

By Richard Donkin

THE Industrial Society, the body that advises companies how best to communicate with their workforces, is to shed about a tenth of its staff in a restructuring exercise.

The decision to cut 57 posts from its staff has been particularly difficult for an organisation that has pioneered good management relations with employees and has prided itself on advising companies how to become model employers.

Mr Alistair Graham, the director, emphasised yesterday that the society was practising what it preached in a series of management-employee meetings and consultations to ease the pain of what for some staff will be compulsory redundancy.

In spite of more than doubling earnings from £8.3m three years ago to about £17m in the year to June, the society, a registered charity, has been working on tight reserves of 6 per cent of its surplus.

The cost of computerisation and a downturn in demand for its services with forecasts of a difficult economic period in the next year, all contributed to the cuts, Mr Graham said.

The job losses come after a period of record growth for the society, staffing rising from 285 in 1986 to 515 today, making it the country's largest independent training organisation.

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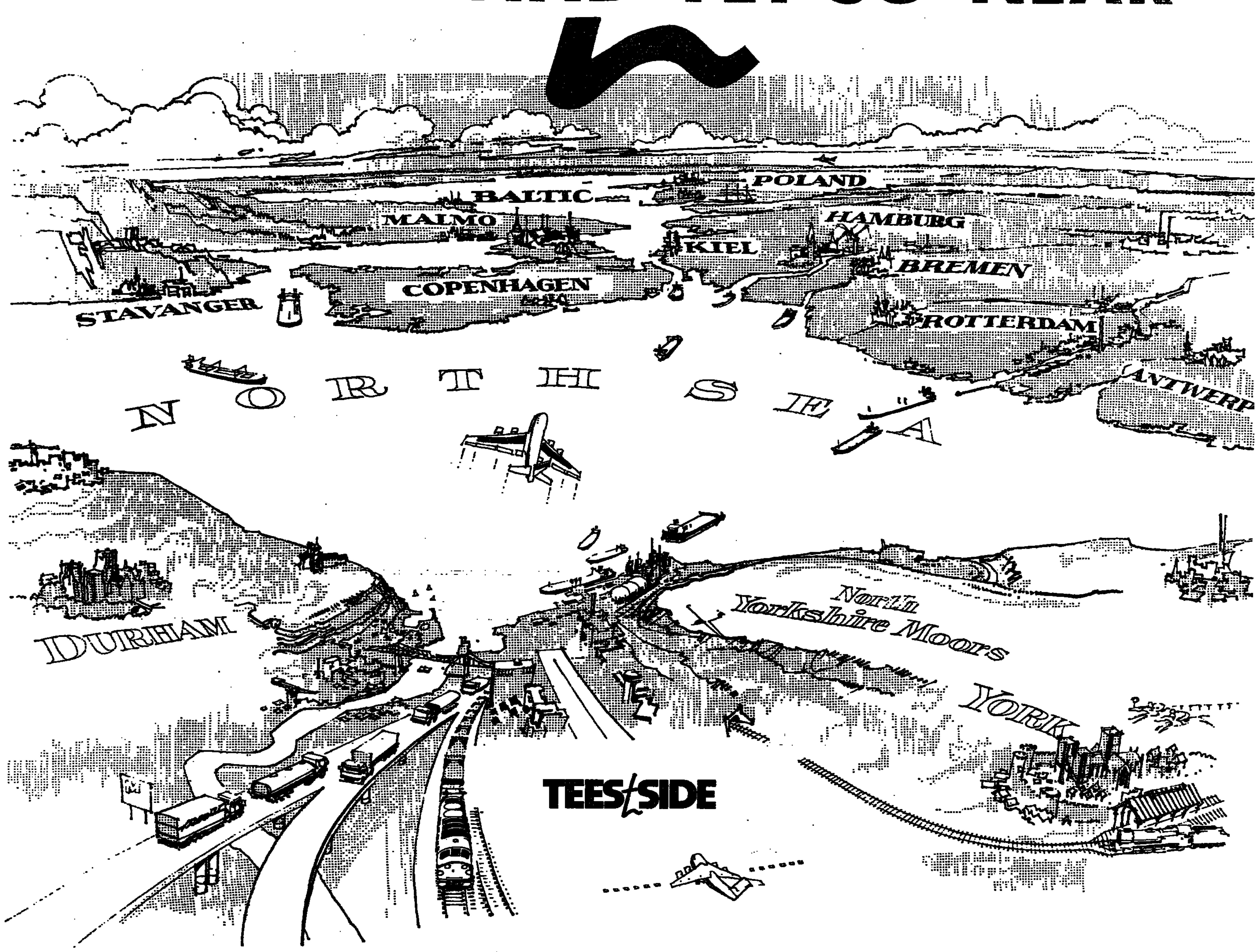

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MANAGEMENT

Farm equipment

A very different Case from a year ago

James Buchan assesses the progress made by the new regime at Racine

In Racine, an old manufacturing town on the shores of Lake Michigan, the city centre is being transformed. In the autumn sunlight, brick dust rises up in clouds where wreckers are demolishing the 19th century multi-storey factories of the JI Case company. Case's stone headquarters has been cleaned and gilded. To the south of town, past the deep harbour which is now a marina for Chicago pleasure boats, the last working Case factory in town is being sheathed in fancy dull grey metal.

The cost of all this is about $8m, which is not the sort of money that Case can afford to spend on embellishments. Case IH, which makes tractors, combines and construction equipment, lost $68m in 1983, $105m in 1984, $214m in 1985, $1m in 1986, $259m in 1987 and $95m in 1988. Nor is James Ashford, Case's president, the man to spend good money on fripperies. "I'm the kind of guy who picks a penny up off the floor," he said when he took over the job at Case in December 1987.

James Ashford: unpretentious, methodical and determined

But a year on, Case is a different place and Ashford, in a sense, a different businessman. A lot of pennies have been picked up: capacity has been been closed, people fired, working capital scrimped and saved. And now the market for farm equipment is improving.

But even though farmers are trading in their old machines, Case's North American plants are operating at only 60 per cent of capacity. "I'm spending money now because only the employees are going to save this company," Ashford says. "We have to give them pride in the work they're doing."

At Case, a manufacturing drama is being played out. Inch by inch, one of industrial America's most intractable businesses is being brought round. Success at Case would give a great boost to the morale of manufacturing industry in the Midwest. It would justify the much ridiculed strategy of Tenneco, the Houston conglomerate which owns Case, to sell out of the oil and gas business to concentrate on tractors. And it would surely put Ashford in line to run Tenneco or just about any other manufacturing business he wants.

Case, which began life in 1842 when Jerome Increase Case brought his threshing machine to the brand new wheat farms of Wisconsin, is the largest manufacturer of farm equipment in the world after John Deere, 200 miles away in Moline, Illinois. The company's main business is making the big and expensive two-wheel and four-wheel drive tractors and combines used on the vast farms of the Midwest and Canada.

Case also makes machines of less than 100-horsepower for dairy and smaller farms (which it sources in the UK, France and West Germany), gardening tractors, cotton pickers and other specialised machines and construction equipment, including the market-leading US back hoe loader. Sales last year were $4.3bn.

"I didn't come up here with a grand plan," says Ashford, who is 52. "I just thought that a company of this size could do a bit better."

It could not do much worse. JI Case was bought by Tenneco in 1970; it prospered throughout that decade as North American farmers put ever greater acreage under crops to supply booming export markets. But the turn into the 1980s brought disaster.

The grain embargo against the Soviet Union ushered in a period of declining demand while rising interest rates and falling land values crippled the highly leveraged farm economy. Case scrambled to cut costs and close capacity, merging its operations with the farm equipment business of the crippled International Harvester in a $430m deal in 1984. But even a rationalised Case could not keep ahead of the volume decline. Tractor sales, which touched their peak at 166,000 a year in 1979 had fallen to 61,600 by 1986.

The company was so demoralised it even misjudged the upturn. By the growing season of 1987, land prices had hit bottom and farm income was turning up. Since North American wheat or corn farmers generally mortgage their land to raise the $50,000-$100,000 for a new tractor, this was an ideal constellation for the machinery makers.

Case had a brand new tractor line, the 130-hp Magnum series, to offer, but first it had to clear out 5,100 old model tractors from dealers' yards. Case expected to need six to eight months to move the tractors and offered deep discounts. They sold out in 60 days. Case lost more money that year than in the depths of the farm crisis; Tenneco's patience ran out and Ashford, who had just spent five years turning round the company's automotive parts subsidiary was on his way to Racine.

Ashford grew up in Mississippi farm country. He is unpretentious, methodical and determined. He immediately fired or eased out 87 of the top 100 managers. He turned the management structure upside down, replacing a functional division of responsibility – manufacturing, sales, finance, engineering and so on – with an organisation that recognised that Case is a complex company with widely different businesses. The new division is according to business: farm machinery, construction equipment, parts, international and financial.

Ashford lured managers from all over US manufacturing from Chrysler to General Electric, with the prospect of working with him on such a challenging turnround. He told them to cut costs by $200m in the first year. When they clawed back $132m in savings and were feeling good about it, he sent them back with a target of $200m this year. They will probably achieve $160m. "You have to have an objective like this every year," he says.

Case is now making money. The company reported operating profits of $71m in the first nine months of this year. But this is still a miserable return on nine-month sales of about $3bn, and all the easy solutions have been exhausted. Case's European business may see some further consolidation as the European farm industry itself consolidates, but Ashford can scarcely close any North American factories; the company now has just one site for two-wheel tractors (Racine), four-wheel drive tractors (Fargo, North Dakota) and combines (East Moline). There is little more to be cut out of sales and administration. "If you are going to rely on head-count reductions, you'll fail because there aren't enough heads," he says.

The turbocharged Magnum: more force with it

Case must now tackle the most important piece of manufacturing cost, which is all the components, engines and other materials coming into the factories from outside suppliers. To reduce materials costs, Ashford has to cut through the dog's breakfast of 8,000 suppliers behind Case tractors and back-hoes. "We still have 10 or 11 engine suppliers," he says. "We will try and get that down to two or three with our joint venture, with Cummins Engine as the main one. They can supply at higher volume which means lower cost. Then we can work a further cost reduction programme with them through engineering solutions. And then, then, we can work our quality programme."

To hear Ashford speak is to hear a businessman who is thinking out loud, constantly trying to understand the machines he is making and the markets they serve. He is a martinet about quality, like the company's founder; it is said that in 1884, at the age of 65, Jerome Increase travelled all the way to Rice County in Minnesota to mend a Case threshing machine and then set fire to it in rage when it still wouldn't work. Ever since his day, the industry has recognised that the farmer cannot have the machine break down on him and that dependability and service are much more important than price.

But in the past 10 years, Case's reputation for quality has slipped behind that of Deere for farm machinery and Caterpillar for earth-moving equipment. And the Case dealer network, though it was strengthened by the Harvester dealers, is also widely seen by farmers as second best in service.

What Ashford has done is to bring back the emphasis on quality. Case's managers, who still seem dazed by the upheavals of the past 18 months, talk obsessively about quality: in design, distribution, service, people. The Magnum, with its air-conditioned cab, dizzying array of controls and Rolls-Royce price tag, is clearly produced by an artisan. At the Racine factory, the quality control teams that used to inspect a tractor at the end of the line have been abolished and each worker has been made responsible for his own quality control.

The factory turns out less than 50 machines a day and robots are only used in the paint shop. Says Lenny Juliano, who tests the cab controls on the Magnum: "If something goes wrong, they cut my throat."

James Ketelsen, chairman of Tenneco, believes Case should be able to earn operating profits of $400m a year. With farmers' income rising sharply this year, and a big increase in acreage under crops likely next year, people such as John Stark, editor of Stark's Off-Highway Ledger, the industry's "Bible", think 1990 could be the best year since the 1970s. "Jim Ashford has the markets at his back," Stark says. "So long as Case is managed as carefully as it is now, anything can happen."

Fed up to the back teeth with breakfasts

Michael Skapinker does not mince his words

Few look their best at the crack of dawn. But on every early morning train are some who look worse than the rest. Pale, drawn and trembling, one fears they might not survive the day.

Have they been up all night nursing a sick relative? Are they suffering from the strain of marital breakdown? No, they have simply not consumed any food for 12 hours. They left home without eating their usual muesli, eggs or cornflakes. They are on their way to a Working Breakfast.

Working breakfasts are a blight on corporate civilisation. Apart from anything else, they are a misnomer. Nobody does any work at a working breakfast. Everyone is too busy eating, attempting to restore their blood sugar to a level capable of sustaining human life.

Eating breakfast with strangers is an odd thing to do. Breakfast is part of one's private existence. It should be shared with a newspaper or with members of one's family – all, preferably, with their own newspapers. (Family members who ask for a bit of *your* newspaper are another blight on civilisation, but that is another story.)

Once you allow work to invade your breakfast, what will be next? Working showers?

The fashion for working breakfasts has its ups and downs. At the time of London's Big Bang, invitations to breakfast came thick and fast. Lately, there have been fewer, although we did receive one last week.

It came from a public relations company representing an American organisation. The PR company said the service its client offered was too complicated to explain in a letter, although it sounded suspiciously like management consultancy. A face-to-face meeting would be necessary. "Can we suggest an exploratory working breakfast?" the letter asked. Out of deference to those of you reading this over breakfast, we will not speculate on what they might have meant by "exploratory".

Some will say that the popularity of working breakfasts at the time of Big Bang reveals their real purpose. Working breakfasts are about power. People invite you to breakfast to show how powerful they are. This is nonsense, of course. People cannot possibly feel powerful when they are that weak and hungry.

The real reason people have working breakfasts is to show how *busy* they are. Breakfast is the only time of the day or night they could possibly spare.

Managers who have working breakfasts are the same people who get their secretaries to phone you because they do not have the time to dial seven digits themselves. "I have Hugo Whiplash of Spirotex Services to speak to you," the secretary will say, allowing the great man to work right up to the moment you are ready to talk to him. (Even then, his hands are too busy to bother with the receiver and he barks at you through a speaker phone, but that too is another story.)

Bloated

If working breakfasts are meant to save time they are a failure. You end up getting to the office far later than you would have done if you had eaten breakfast at home. Meet a manager who "does" working breakfasts and you are looking at someone who doesn't start work until 10.45.

People often feel bloated after a working breakfast. This is particularly true of those who stave off hunger by eating at home before leaving for their working breakfast.

Some eat breakfast at home as a means of exerting their power over those who have not. Not only do they have some colour in their cheeks, they are also able to say "I'll just have an orange juice" or even "I never eat breakfast". They can then sit and watch the other party eat alone, a discomforting experience for the latter.

The best solution is to escape working breakfasts entirely. One of my colleagues responds to breakfast invitations by saying: "I only eat breakfast with the person I slept with the night before." Not everyone will want to use such a line, however, because of the unpredictability of the consequences.

Far better to say: "I'm much too busy for breakfast. I'm surprised Mr Whiplash has the time."

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BCC	Business Card Case, black leather	12.36	11.30	9.66	9.45	9.03	8.72	7.88	
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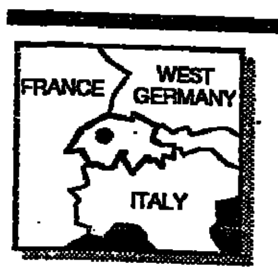


The historic canton of Bern says it is embracing change. However, given the innate conservatism of its people, Swiss from other cantons say they will believe it when they see it. Meanwhile, industry and farming face a testing time. William Dullforce reports

A sleepy city starts to stir

The canton is often described as "Switzerland in miniature" . . . Bern represents, above all, Swiss continuity: The Clock Tower, (left) and an old man watching chess

Tony Andrews

THE CANTON of Bern is trying to shake off its deep-rooted habit of resisting change in time for its 800th anniversary in 1991.

Having missed the industrial revolution, it is now promoting itself as a centre for new technology; it is revamping its tax system to stimulate entrepreneurs; and it aims to improve substantially its banking and other financial services.

Some local politicians and businessmen affirm that the break with habit has begun. Swiss from other cantons say they will believe it when they see it. The Bernese people's innate conservatism and mistrust of novelty is legendary.

With just under 1m inhabitants – roughly one seventh of the Swiss population – Bern ranks second in both size and population among the Confederation's 26 cantons and half-cantons. Graubünden, the tourist paradise in Switzerland's mountainous south-east, has more space. Zurich, the financial and industrial centre, holds more people.

Bern's claim to primacy derives from its historical role and what is best described as the accoutrements of state dignity. The city of Bern is the seat of the Federal parliament and government; it functions as the Confederation's political and administrative hub.

For centuries Bern, wealthy and patrician, was politically and militarily the most powerful of the Swiss states – the axis round which the history of the Confederation turned. Spread across the middle of Switzerland, bordering on 12 other cantons and half-cantons, it remains the link binding the French-speaking and German-speaking parts of the Confederation.

The canton is often described as "Switzerland in miniature." Geographically, it embraces the Jura hills, the Mittelland – or central plain – and the Alps of the Oberland. Its economy is divided between farming, industry and services roughly in the same proportions as the Swiss economy as a whole.

Bern represents Swiss continuity. Tradition stays close in the daily life of its people. In the city's Old Town the Bernese go about their work in medieval arcades and buildings which have been assiduously kept in repair for centuries. They now house computers and other trappings of modern government and business, while retaining their original architectural form.

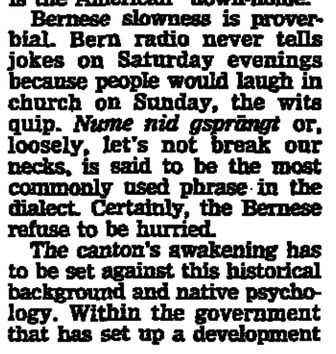
The riddle is whether the Bernese can reconcile the need for a change of direction and for a modernisation of the economy with this long-standing habit of circumspect, tradition-bound progress.

The city was founded in 1191 by Duke Berchtold of Zähringen and until the early 19th century the canton was governed by aristocrats, the "von" families, who lived off the income from their lands. The authoritarian government, rural values and a placid electorate continued until well into the current century.

Although Bern became Protestant at the time of the Reformation – four fifths of the population still declare allegiance to the Reformed Evangelical Church. The spirit of enterprise remained modest, and led to small companies rather than big industries.

Even today, although the statistics belie it, most Swiss think of Bern as a canton of administrators, farmers, army officers and academics. Indeed, some 20,000 federal civil servants, including post office and state railway staff, work in Bern alongside 12,000 cantonal functionaries – 15,000 if the teachers are added.

By comparison industry employs 145,500, the services sector offers 212,700 jobs while only 36,600 remain at work on the farms and in the forests.



Napoleon: conquered Bern

Still, a certain rustic stolidity is seen as characteristic of the Bernese. In their own German dialect they are described as *bodenständig*, meaning attached to the soil or down-to-earth, and *heimelig*, the closest translation of which is the American "down-home."

Bernese slowness is proverbial. Bern radio never tells jokes on Saturday evenings because people would laugh in church on Sunday, the wits quip. *Nume nid gsprängt* or, loosely, let's not break our necks, is said to be the most commonly used phrase in the dialect. Certainly, the Bernese refuse to be hurried.

The canton's awakening has to be set against this historical background and native psychology. Within the government that has set up a development agency to attract new investment one is told: "We just want a little more industry." The aim is to give a more solid, competitive character to the existing industrial base.

Nevertheless, the canton has been experiencing unusual agitation recently. It has lost parts of its territory and has been shaken by a political scandal. The city has proved not to be immune to the ills besetting young people in bigger Swiss and European agglomerations.

Drug addicts now gather to shoot heroin into their veins only a couple of hundred metres from the federal parliament. This year Bern police have dealt roughly with protest marches against the lack of reasonably priced housing.

The first blow to Bernese pride came in 1974 and 1975 when the three French-speaking, predominantly Catholic districts in the north voted for secession from Bern and in 1979 constituted the new canton of Jura. Three districts with bigger Protestant allegiance chose to stay in Bern, although in one, Moutier, pressure has recently been renewed for a new referendum.

At present only 8 per cent of the population of Bern are French speakers, although the canton remains constitutionally bilingual and the French-speaking part is guaranteed one representative in the nine-member cantonal government.

Bern has suffered another secession. Bern was allocated the Jura districts in the peace settlement after the Napoleonic wars in 1815, as compensation for the loss of Vaud and Aargau, which became separate cantons. At the same time it acquired the predominantly Catholic German-speaking Laufental district.

Laufental has been territorially separated from Bern since the formation of the canton of Jura in 1979. By a majority of 57 per cent its people voted in 1983 to stay with Bern rather than join the neighbouring canton of Basle. On Sunday November 12, they reversed this decision, voting by a majority of 51.7 per cent for accession to Basle.

This new referendum, ordered by the Swiss Federal Tribunal (supreme court), resulted from the scandal which exploded in Bern in 1984, when a state auditor revealed the existence of secret funds used by highly respected political leaders. Part of these funds had financed the pro-Bern faction in the 1983 referendum in Laufental.

Another sequel to the "funds" scandal was the loss by the bourgeois parties of their long-standing control of the cantonal government in the 1986 election. Two Green candidates replaced two Radicals (Conservatives), forming with three Socialists a Left/Green majority against the four representatives of the Swiss People's Party (SPP). The 1986 election also brought the first woman, Mrs Leni Robert, into the government.

The SPP, formerly the Agrarian and Crafts party, with strong support in the Bern countryside has long dominated Bern cantonal politics. The governmental shake-up and the arrival of a new, young SPP finance minister, Mr Ueli Augsburger, resulted in a cantonal authority which for once has been stimulating the process of change.

Cantonal finances have been put on a new footing. Having arranged for lower corporate taxation, Mr Augsburger is now planning cuts in individual income tax. The state-owned Kantonalbank and Hypothekarkasse are being merged to form Switzerland's sixth largest bank.

Greater start-up aid for companies setting up in the canton and increased contributions for training and retraining of personnel have been introduced. Government, business and university are establishing a technology park near Bern.

Recently, the cantonal government published its own report on the possible effects on the economy of the European Community's single market. It concluded that the small and medium-sized enterprises which dominate the canton's industry would be exposed to tougher competition, needed to be better informed about what is happening in the EC and should set about organising themselves.

More anxiety and less certainty prevails about the outlook for farming which remains a crucial part of the cantonal economy and has an even greater political importance. Here the problem is seen as coming from the talks on the reform of world farm trade under the General Agreement on Tariffs and Trade (Gatt), where Switzerland's heavily subsidised agriculture will inevitably be targeted.

This problem is being handled by Swiss federal negotiators. The canton of Bern is uneasily aware that, in assessing the advantages that may be gained from the Gatt talks for, say, Switzerland's big chemical industry or powerful banking sector, the negotiators could make concessions on agriculture.

A new cantonal election is due in the spring. At least one Radical is expected to be returned, restoring the bourgeois majority in the government, which will be reduced from nine to seven members as the result of a referendum earlier this year.

However, most local observers believe that such a return to the old political line-up would not curb the more active role and the thrust for change that has characterised the government in the last few years. Bern's awakening will finally be determined by the psychology of its people.

The Swiss canton of BERN

■ The Economy and Finance, Profile: Bank von Ernst, Page 2

■ Industry, Bern as a capital, Page 3

■ Agriculture, The Stock Exchange, Bern-Belp airport, Page 4

KEY FACTS

☐ Area:
6,049.4 sq km

☐ Population:
938,439
27 districts,
412 local communities

☐ Employment:
Bern 58,363
Switzerland 822,746

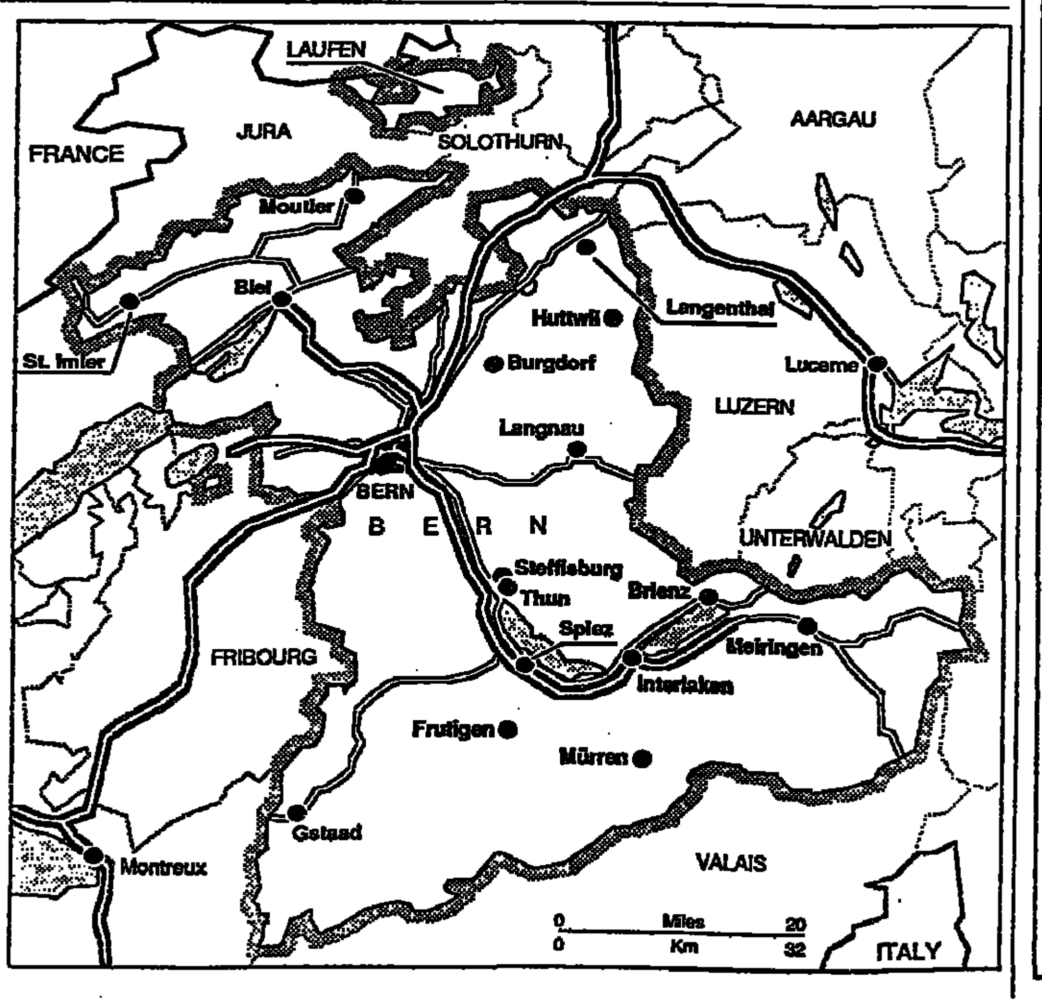
☐ Foreign workers:
German 4,773
French 1,959
Italian 20,044
Austrian 1,815
Spanish 11,117
Others 18,655

☐ Unemployment:
Bern 0.6%
Switzerland 0.8%

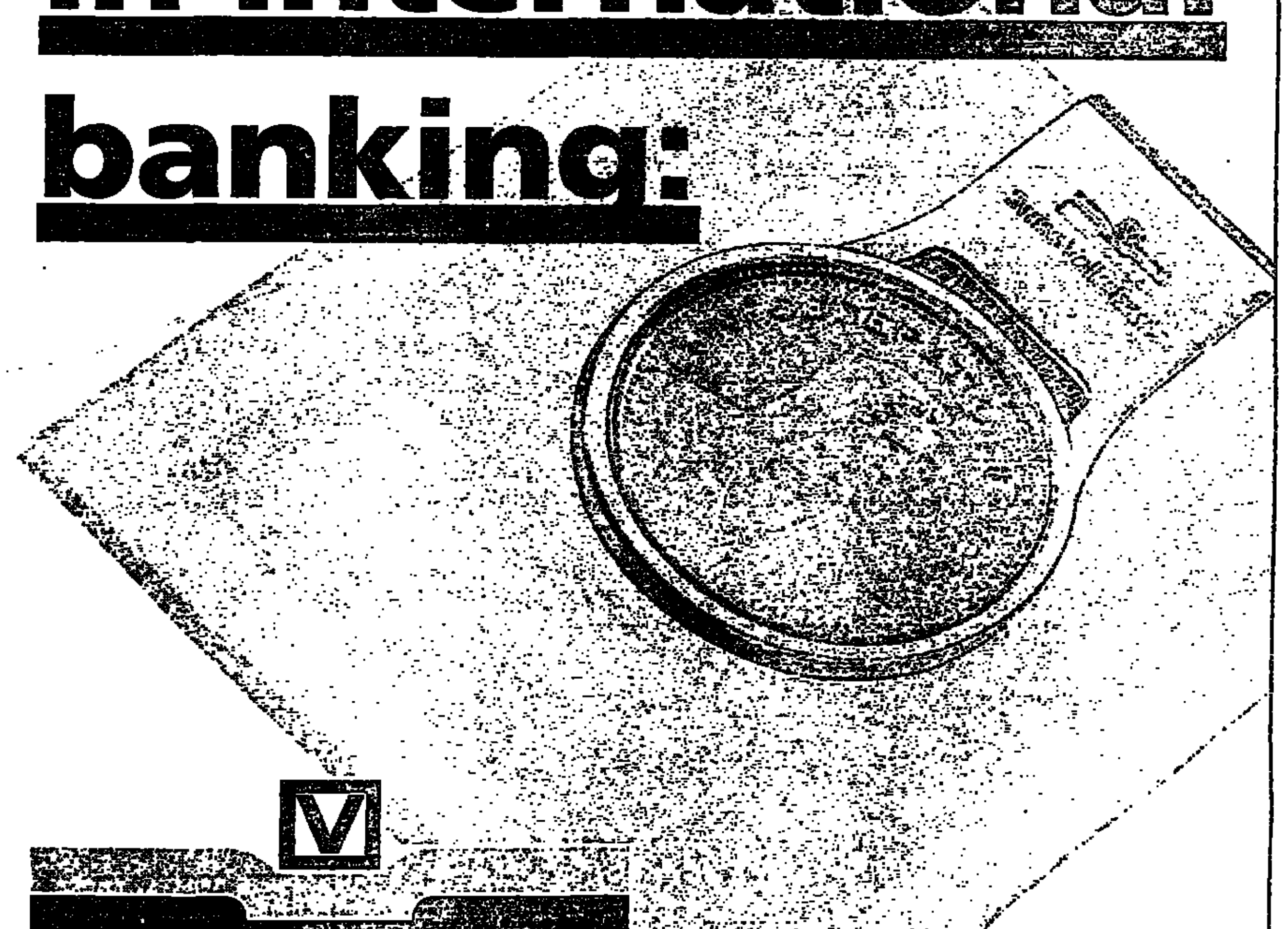
☐ Balance of internal migration:
-710

☐ Revenue per inhabitant
Bern SFr29,352
Switzerland SFr32,882

☐ Hotel nights (000):
Bern 4,579
Bernese Oberland 3,448
Switzerland 33,862



The Swiss name in international banking:



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Weltpoststrasse 5
CH – 3015 Berne

William Dullforce reports on disquiet about the cantonal economy

Doubts over single market

IT GOES almost without saying that the Bernese, like the rest of the Swiss, have developed a solidly based economy and enjoy high per capita incomes.

Moreover, the Kantonalbank von Bern's survey of business expectations in the third quarter depicted a cantonal economy in fine fettle.

Average capacity utilisation in the companies covered was 90 per cent. Even if the recent rise in Swiss interest rates had slightly dampened optimism, the large bulk of enterprises foresaw stable or higher order intakes and production levels.

Investments in capital goods by Bernese engineering concerns were projected to continue at a higher level than the average for Swiss companies in general. The September unemployment rate at 0.28 per cent was the lowest since new statistical methods were introduced in 1985.

The strongest improvements in the rate were recorded in the Biel (Bienne) and Jura regions, which suffered most from the recession of the 1970s.

Yet, in this context of apparent prosperity and excellent economic performance, the Kantonalbank is about to publish a study suggesting that action is needed from the cantonal authorities to help keep the Bernese economy competitive. The Government, in its more activist mood, has taken steps to ease taxation and to stimulate private enterprise.

Augsburger: reduced corporate charges

In part this disquiet stems from the cantonal authorities' physical proximity to the federal government and their awareness that the country's ministers are spending much time and resources on assessing how the European Community's planned single market will affect the Swiss economy.

The Bernese Government published a report intended to alert the canton's thousands of small and medium-sized concerns to the tougher competition they may face beyond 1992 from EC companies.

In 1987, the canton exported goods and services to a value of SFr3bn (£1.16bn). Of these 60 per cent went to the Community compared with only 7 per cent to the five other countries of the European Free Trading Association, to which Switzerland belongs. Of the canton's imports, totalling SFr5.8bn, more than 75 per cent originated in the EC.

Pride may also have something to do with the renewed concern about the economy. Bern has been lagging. National income per habitant in the canton in 1987 was SFr30,440 compared with SFr34,121 for Switzerland as a whole and SFr42,676 in the canton of Zurich.

The Bernese economy is often said to mirror that of Switzerland in the sense that its sectoral breakdown corresponds most closely among the cantons to the national situation. Services, including tourism, provide 54 per cent of the jobs, a little less than 37 per cent comes from industry and construction, while farming and forestry make up just over 9 per cent.

But Bern possesses no big business corresponding to Zurich's banking and engineering concerns or Basle's chemical groups. Bern contains 52,300 enterprises and posts a gross domestic product of SFr28.5bn while Zurich lists only 49,600 enterprises against SFr48.8bn in income.

In 1987, tax rates, both corporate and personal, were higher in Bern than in any other canton except for the Jura. Bern is a big canton and has heavy infrastructural requirements. Roads, railways and communal services are maintained to a high standard. Bern has more secondary railway track than any other canton; 34 companies operate some 640 kilometres.

However, some local economists argue that the combination of high taxes, public benevolence towards the heavily subsidised farmers and the "bureaucratic" climate engendered by the presence of some 50,000 federal, cantonal and communal *beamter* inhibits enterprise and will slow the canton's future development.

Mr Ueli Augsburger, the cantonal finance minister, is trying to do something about this situation. Reductions in corporate charges have been approved, even if company treasurers have not yet felt their impact. Corporate tax is being cut from 20 per cent above the Swiss average to 10 per cent below, making Bern the cheapest canton after Zug, according to Mr Augsburger.

He is planning to reduce personal income tax in four steps to the average Swiss level. This means there will be little hope of balancing the cantonal budget, which has run a deficit for the past four years, during the next four.

The 1990-93 financial plan published in October projected annual deficits ranging from SFr205m to SFr258m. Over the four-year period the plan forecast a net financing requirement of more than SFr1.7bn, which would have to be met principally by borrowing.

However, Mr Augsburger envisages economies to curb the growth in expenditure. These include putting ceilings on the number of cantonal employees and on investment subsidies. Laws would be revised to allow for reductions in subsidies and in cantonal grants to the communes which have been growing at some 10 per cent a year.

The minister counts on the supply-side effect of his tax measures eventually to increase cantonal revenues. He is hoping in particular that the tax benefits will induce multinational corporations to establish holding companies in the canton (see article on finance).

In Mr Augsburger's view, to exploit the full potential of the cantonal economy a government that manages the canton instead of merely presiding over it is needed. The active management approach has resulted this year in new guidelines for two important sectors of the economy, tourism and energy.

Tourism has been a basic source of wealth and growth for the Bernese economy since well before the building of the first grand hotel, the Schweizerhof in Interlaken, in 1859. The Baedeker guide of 1853 described this "simple village of fishermen" as "virtually a British colony."

Now the canton boasts more than 1,000 hotels and other establishments and 75 per cent of its tourist income is still estimated to come from the Alpine Oberland region. Tourism in the three regions of Oberland, Mittelland and the Jura contributes 8 per cent of the cantonal income, but business has stagnated.

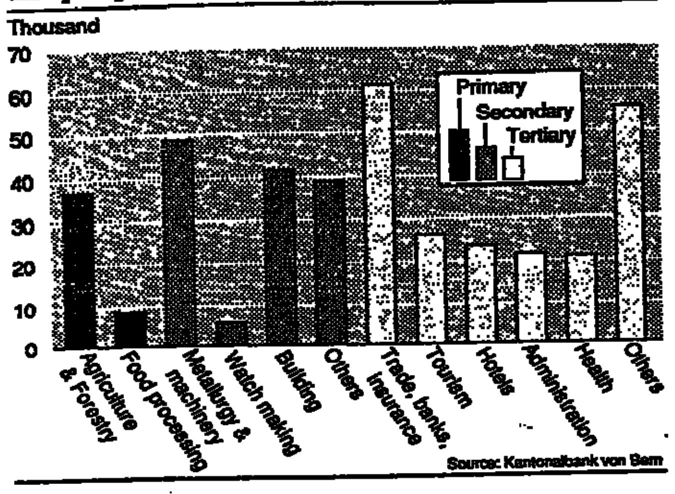
Oberland's share of the total of hotel beds on offer in Switzerland has declined. Since 1986 the number of "nights" spent there in summer by tourists has been lower than it was in 1970 while it has continued to advance in the cantons of Graubünden and Valais. In winter, although the rate of occupation of the beds available has continued to grow, it has been between 5 and 10 per cent lower than in Graubünden and Valais.

The 15-member group that analysed these weaknesses submitted an impressive programme for making up lost ground. It detailed the investments, changes in attitude and improved promotional efforts needed, at the same time as it indicated how the special quality of a Swiss holiday could be maintained and the environment preserved.

This month the Government finally abandoned the idea of building a second nuclear power station. But, in spite of its Left/Green majority, it has no intention of closing down the first plant at Mühleberg.

Its programme, looking as far ahead as 2025, aims at stabilising consumption of energy, renovating the canton's hydroelectric power plants, developing district heating and promoting alternative sources of energy, such as solar power, on which the canton's engineering schools are already working.

Employment in the Bern economy



Tony Andrews

Trams on the Spitalgasse: Bern's roads, railways and communal services are maintained to a high standard

A bank that changed hands but not its image

The model of discretion

CLIENTS OF Bank von Ernst & Cie are whisked by lift from the arcaded pavement of the Marktgasse into a carpeted reception room. From there into the conference rooms on the floors above the discreet, confidential atmosphere of a Swiss private bank is carefully sustained.

The bank is a rarity, first, because it pursues private banking from Bern rather than from Geneva or Lugano and, second, because it is not Swiss.

Founded in 1869, Bank von Ernst was acquired in 1967 by Hill Samuel, the London merchant bank, which is now itself part of Britain's Trustee Savings Bank group.

Hill Samuel kept the name without adding its own, has maintained a predominantly Swiss staff and has deliberately cultivated the Swiss image. Of some 80 employees only two are British.

Why Bern? Initially, perhaps, because Hill Samuel was able to buy a Swiss private bank without the premium it would have had to pay in Geneva or Zurich. But, it claims, experience shows that, in attracting international money, it does not really matter where you are in Switzerland.

According to Mr Michael Vlahovic, the marketing manager, local clients with portfolios to manage are still more numerous, but in volume the international operations are bigger.

The bread-and-butter business generated locally – Bank von Ernst advises a couple of Bernese pension funds and is selling its services to regional banks – keeps the bank in Bern but the international business is growing faster.

For the year ending October 31, 1988 the bank reported net earnings of just under SFr2m (£780,000) on an income of slightly over SFr22m. Assets totalled SFr173m.

Bank von Ernst pursues private banking from Bern rather than Geneva

The trading profit grew by 250 per cent between 1981 and 1988 and will have trebled by the end of October this year, according to preliminary estimates. These estimates indicate that, since 1981, Bank von Ernst's gross income has increased by 134 per cent.

Net interest income climbed by almost 300 per cent, safe custody fees by 188 per cent, revenue from foreign exchange transactions by 113 per cent, fiduciary commissions by 103 per cent and management fees by 91 per cent.

A founding member of the Bern stock exchange, the bank has seen its brokerage income increase by 263 per cent since 1981. It finds considerable interest among London investors for Bernese railway stocks.

In the context of Bern's growth potential as a financial centre, it is significant that Hill Samuel sees Bank von Ernst as central to its private banking operations in Europe. Switzerland, the bank contended in its 1988 report, would continue to play a decisive role for many Europeans after the liberalisation of capital flows within the EC.

Bank von Ernst is counting on the attraction of Swiss confidentiality. Two advertising campaigns have already been conducted and the bank is expanding into premises next door.

Mr Vlahovic says the objective is to open channels to private clients in selected EC states. West Germany is being heavily worked but the campaigns have also focused on Spain, Belgium and Ireland.

William Dullforce

Plans are afoot to revitalise the financial services, says William Dullforce

Mergers add weight to the banks

FIVE BANKS can be discerned from the portal of the federal parliament in Bern but that does not make the city a financial centre of similar stamp to Zurich, Geneva or even Lugano.

Significantly, the Swiss National Bank (central bank) lists no finance companies and only one foreign-owned bank as being domiciled in Bern.

However, as part of the canton's drive for renewed economic growth, plans are afoot to revitalise banking and to improve the financial services available for businesses setting up in the canton.

These plans centre on the merger of the publicly owned Kantonalbank von Bern with the Hypothekarkasse des Kantons Bern to form Switzerland's sixth largest bank.

Bern is home to the fifth largest, Swiss Volksbank, a privately owned commercial bank and one which behaves like a typical Swiss "universal" bank.

While it is undoubtedly a force on the cantonal retail banking scene, Volksbank operates more branches outside than inside the canton. It runs the bulk of its investment banking and off-balance-sheet operations from Zurich and is intent on pursuing its expansion overseas.

The Swiss National Bank has its legal and administrative seat in Bern and retains there its second department which is responsible for the issuing of banknotes, business with the federal government and the administration of the SNB's gold holdings. The SNB's president, its actual business department and its auditing and economic department are in Zurich.

A medium-sized private insurance company, Berner Versicherung, with a 1988 premium income of SFr775m (£302m) has its home in the canton. Speculation that it would be the target for a takeover has died down since last year, when a couple of other small Swiss insurance companies received the attentions of raiders.

The city of Bern boasts a stock exchange, whose turnover is less than 1 per cent of that of Zurich, and whose existence could be jeopardised by plans for an all-electronic Swiss bourse.

However, some of its members believe that by offering a source of equity capital for young companies the exchange can have its role to play in support of cantonal plans to attract new technology enterprises.

Private banking, or the management of private investment portfolios, is represented by two banks, both bearing the name of von Ernst. One is owned by Hill Samuel, the London merchant bank, and the other by Swiss Bank Corporation.

Tony Andrews

The Spar and Leihkasse bank

The history of banking in Bern might have been different. An incipient banking function could be discerned in the 15th century, when societies were formed to finance the canton's wars. By the 18th century the Republic of Bern had acquired a reputation as an international source of funds.

As described in a book published by the Kantonalbank to celebrate its 100th anniversary, Bern's patricians had "amassed an important treasury, to which only eight persons, each possessing a key, had access and the size of which was not known until the French plundered it in 1798." Swiss bank secrecy was already at work. The first loans from this treasury went to England and Holland.

One Nicolas Malacrida founded a bank carrying his name in Bern in 1701. He established a branch in London and secured a partner in Amsterdam. But he was one of the victims of England's South Sea Bubble speculation and went bankrupt in 1720. This setback and the later pillaging of the state treasury by the French appears to have sent the prudent Bernese back into their shells.

Certainly, Bernese banking has been turned inwards, essentially limited to financing cantonal economic growth, notably the railways and hydro-electric stations, and through savings and mortgage banks the needs of its farmers and artisanal industry.

As they are throughout the Confederation the three big Swiss banks – Union Bank of Switzerland, Swiss Bank Corporation and Credit Suisse – are strongly represented. But Bernese bankers say their penetration is less deep than in other cantons. Local patriotism has kept at least half of the retail banking business in Bernese hands.

Still, it is not surprising if present-day talk of creating a financial centre in Bern draws smiles in Zurich and Geneva. But, Mr Ueli Augsburger, the cantonal finance minister, explains, there is no intention of trying to rival these two international centres. His aims, at any rate, are both more limited and more precise.

Mr Augsburger names two objectives for a renovated local banking system.

First, it should be capable of taking the risks involved in backing young industrial and service enterprises venturing into new technology.

Second, it should provide the kind of financial services required by the holding companies of the multinational corporations he hopes to attract to the canton by his corporate tax reforms.

Under this scenario Bern is attacking not the territory occupied by Zurich and Geneva but that of the small "postbox" canton of Zug, whose hospitality to foreign companies has earned it a national income per capita of SFr56,550 compared with Bern's SFr30,440.

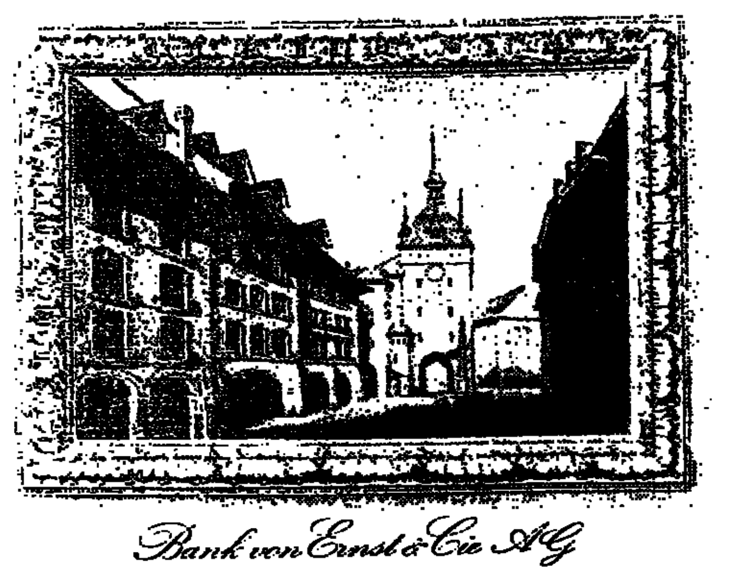
With a little politician's hyperbole, Mr Augsburger says it is time Bern recovered some of the power it has not fully enjoyed since the Middle Ages. In any case, he claims, Bern has much more to offer than Zug.

In the minister's view the merger between the Kantonalbank and the Hypothekarkasse, which will probably be completed in 1991, will create a bank with the critical mass needed to underpin these objectives. The new bank would have assets of about SFr20bn. The logic behind this line of reasoning – although nobody is yet saying so openly – is that the bank would eventually be privatised.

The merged bank would also be better placed to take advantage of the shake-out in Swiss banking which is almost certain to come after the Cartel Commission's recent edicts against price-fixing and other cosy arrangements.

Bern canton is over-banked with more than 60 regional institutions, some of which are bound to be absorbed by bigger banks.

Mr Werner Rey, the Swiss industrialist and financier, has succumbed to Bern's attractions by placing the holding company for his Omni group there. Ascom, the telecommunications group formed from the merger of the Bernese Hasler concern and Autophon, retains its holding company in Bern. Talks have started with some European multinationals.



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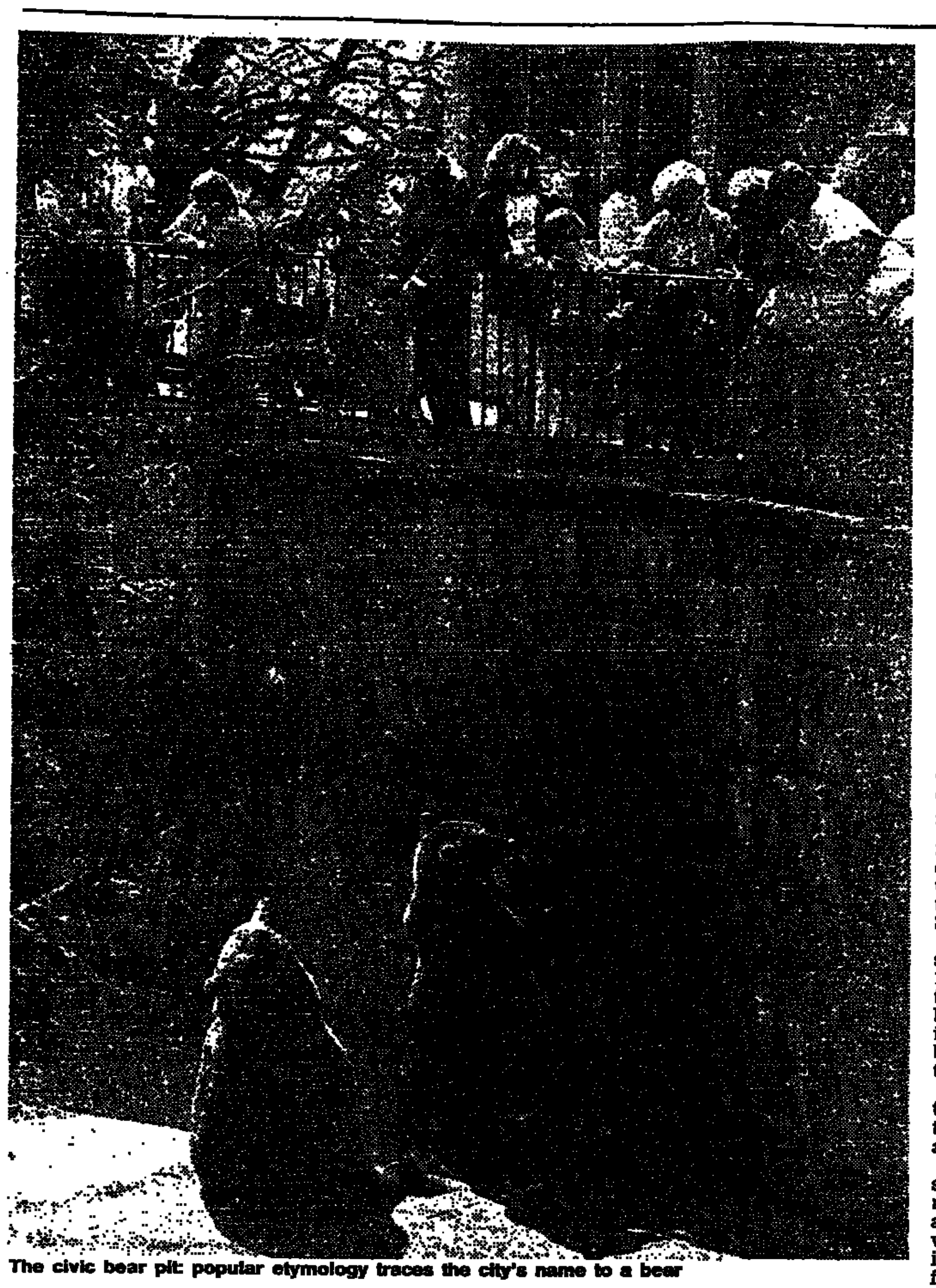
The capital, with its well-kept secrets, is for those in the know, says **John Wicks**

Untouched beauty of a medieval city



The civic bear pit: popular etymology traces the city's name to a bear

THE CITY of Bern is, at least for tourists, pretty much a well-kept secret. While nearby Lucerne is full of holiday-makers, Bern tends to be a place for people in the know.

In fact, it is neither a hectic metropolis nor a faceless collection of ministries. The local tourist office's slogan: Bern is beautiful, means exactly what it says.

The city, built on a bend in the river Aare, is centred on an Old Town so intact as to have been awarded the status of a "world landmark" by Unesco – a title it shares with Rome, Florence and the Pyramids.

It was founded in 1191 by the same Zaehringer dynasty which built towns such as Fribourg and Freiburg in Germany.

The city will be celebrating its 800th birthday in two years' time, the same year as Switzerland has its 700th anniversary.

Bern was already a thriving city when it joined the young Swiss Confederation in 1353. By the time it fell to Napoleon Bonaparte it had become a force to be reckoned with in central Europe. Bern controlled much of what is today the French-speaking part of Switzerland.

It became the permanent seat of the Swiss parliament in 1848 – although its German title has never been "capital" but rather "federal city," marking the fact that it is far from being the home of a highly-centralised government.

The main attraction for visitors is the Old Town around the 15th century minster high above the river.

The Old Town area, which is subject to strict conservation regulations, is close to being an untouched medieval city, with its four miles of arcades, its street markets, the painted fountains in the middle of narrow streets and an ancient clock tower with figures which have been playing to passers-by since 1530.

Bern also has a civic bear pit. As in Berlin, popular etymology traces back the city's name to a bear. This is featured rampant in the coat of arms.

Another tourist attraction is the onion market. Bern always seems to have a street market on somewhere, but the Zibelemaerit is held only on the fourth Monday of November. Spread over the whole of the town, it is as Bernese a festival as carnival in Rio and draws large crowds, mainly from Switzerland and West Germany.

Not a few visitors come for the culture. One draw is the permanent exhibition of works by Paul Klee, who was brought up in Bern, and a series of museums.

These include a postal museum – the city is the headquarters of the Universal Postal Union – and the Einstein House where Albert Einstein, another former resident, formulated his theory of relativity.

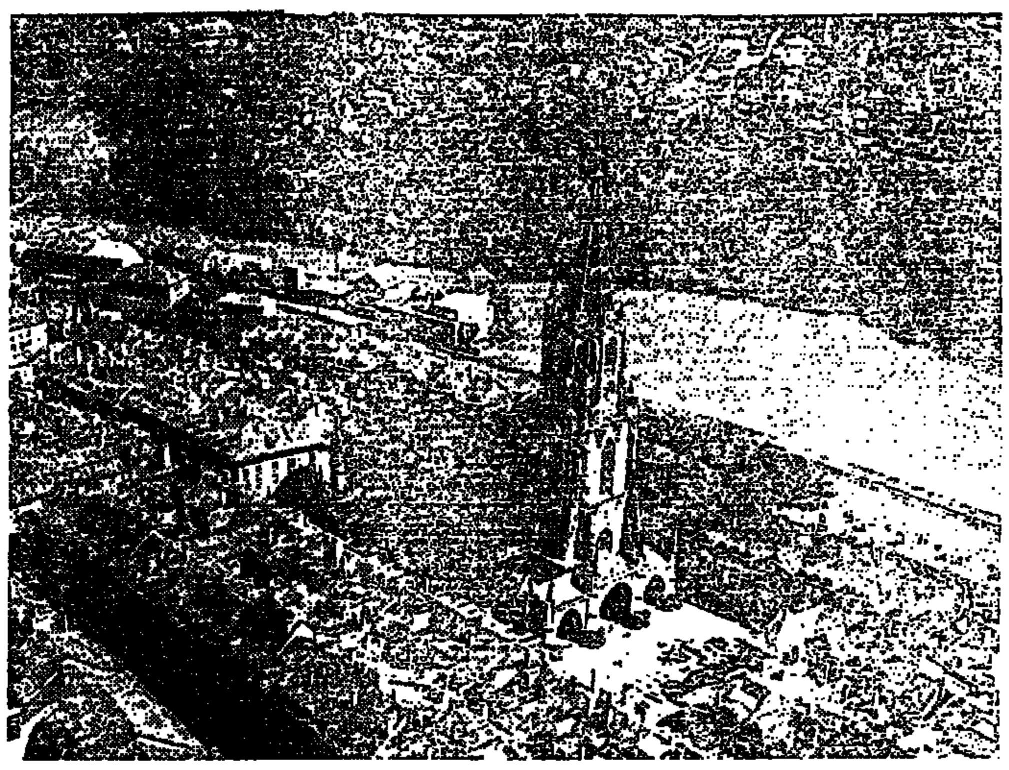
Oddly enough, the Einstein House seems to be best known by Americans.

From time to time, the city pulls in a different clientele in the form of international sports fans. Apart from local events, such as those involving a football team with the unlikely (English) name of Young Boys, this year saw the European Cup match between Barcelona and Milan.

In 1990 the city is to host the ice hockey world championship, always assuming that the town council carries out the necessary expansion of the stadium in time.

Tourists account for only part of Bern's visitors, of course. Apart from business travellers, members of Switzerland's "militia" parliament turn up four times a year for sessions of the two houses, while there are naturally constant comings and goings on political and diplomatic business.

Bern also attracted 137 conferences and congresses last year. While many of these are Swiss events, there are frequent international meetings – ranging from the Council of Europe through the recent international railwaymens' choral festival to the many medical congresses drawn to the city not least by the reputation of Bern University.



The cathedral in Bern

In addition to the 27 congress facilities in or close to the city, the BEA exhibition centre near the Wankdorf sports stadium has an all-year programme of fairs and other shows, by far the biggest being the local consumer goods exhibition BEA itself.

Another important annual event is the Swiss Travel Mart, which, as the biggest show of its kind for incoming tourism, attracts a lot of foreign trade visitors.

In general, visitors make only short stays in Bern, the average being rather less than two bednights. Mr Daniel Rohr, of the tourist office, is – not surprisingly – keen on promoting longer visits rather than the tripper-style whirlwind bus tours which keep foreigners in town for just an hour or so.

In fact, things are perking up. After near stagnation in 1988, bednights were up by 7 per cent in the first three quarters and will probably reach the 500,000 level for the year as a whole. As in 1988, Bern seems likely to do rather better than the national average.

The main contingent of visitors, apart from the Swiss themselves, comes from West Germany, the United States, Italy and France. Incentive travel programmes are being promoted, mainly in the US and south east Asia.

As far as accommodation is concerned, Bern and its suburbs offer some 1,700 beds. There are numerous four and five-star hotels in town, including the deluxe Bellevue Palace and Schweizerhof.

Negotiations are under way to see whether hotel facilities can be added to the Kursaal, one of Bern's leading congress and entertainment centres.

Capacity-use rates are usually pretty high, an exception being the December/January off-season. During parliamentary sessions, peak months such as September and at the time of the BEA fair, it can be difficult to find somewhere to stay.

There are generally plenty of out-of-town vacancies, though. One of Bern's many advantages is its proximity to other attractive towns such as Fribourg, Thun, Solothurn or Burgdorf and, of course, to the hills of the Emmental and the mountains and lakes of the Bernese Oberland.

The city is, conversely, often used as a base for tourists making daily excursions to nearby beauty spots.

As far as transport is concerned, the city is well served. Apart from its motorway links, it is on the main north-south railway line.

International services include the high-speed TGV service to Paris (in three hours), the Talgo express to Barcelona and now a fast connection to Munich.

Its position on the rail axis means Bern has direct train access to the intercontinental airports of Zurich and Geneva.

It has a small local airport at Belp, where Dan-Air and Crossair have recently been expanding international scheduled services.

Dusseldorf is being added to a timetable which already features regular flights to foreign cities including London and Paris.

William Dullforce looks at the structure of industrial development

Small companies welcomed

INDUSTRIAL DEVELOPMENT is being promoted by the canton of Bern, but emphatically not just any kind of industry. "We do not like factories," one cantonal minister said.

Interest is focused on companies with advanced technology offering jobs for the graduates from Bern's university and five engineering schools.

In line with Bernese tradition and political temperament, preference goes to small and medium-sized companies. With two Green politicians in the Government, entrepreneurs whose manufacturing or services save energy and do not create pollution can expect the warmest welcome.

For investors who meet the prescription, the canton provides substantial incentives. The Bern Development Agency (Beda) can arrange tax benefits and exemptions, loan guarantees, help in buying land and buildings, including rent contributions, and tax-free grants for training personnel.

Promotion is not solely a governmental exercise. Investment credits are funded by the Kantonalbank and 63 other Bernese banks. BeTech is the name of a collaborative exercise by the Government, the university and private business to set up a technology park at Bumpliz, on the outskirts of Bern city.

This park aims at supplying a missing link in the canton's industrial structure – an area where companies can come close enough together, to benefit from a high-technology climate and exchange ideas.

With a similar purpose in mind, a *centre interrégional de perfectionnement* is being established at Tramelan. It is intended to furnish the career-long training and retraining of staff considered to be an essential requirement for modern industry.

Bern is a small-enterprise canton through historical circumstance – its land-owning ruling class missed the industrial revolution – artisanal tradition and political preference. The 145,500 workers in the secondary sector are divided among 6,350 industrial and artisanal concerns and 4,000 construction enterprises.

Ascom, the telecommunications group formed from the merger of Hasler (a Bern company) and Autophon (Solothurn) is the biggest Bern-based enterprise with an annual turnover of SFr2.7bn. The watchmaking of the Jura region is the industry most often associated with the canton but in fact four times as many people are employed by small and medium-sized metal-working and machinery groups.

One of the most successful Bernese companies is Wifag, a manufacturer of printing equipment, whose machines are used by Pravda in Moscow and Le Monde in Paris. Bern's forests have provided the raw material for a paper-making industry which supplies about half of the newsprint used by Swiss newspapers

Mr Bernhard Müller, cantonal Economy Minister, emphasises that the instruments for promoting development accorded to his ministry by new parliamentary acts are intended to help small enterprises. The policy had to be formulated that way to be acceptable to his Swiss People's Party, which has agrarian and artisanal roots.

Governmental strategy aims at creating jobs but remains essentially liberal in philosophy. Companies can obtain start-up assistance, with tax and training grants for the first years, but are then expected to find their own feet on the open market.

Beda started work in 1973 after the Government and parliament had decided that a promotional effort was needed to stimulate the static cantonal economy. The small agency ran straight into the crisis that hit Swiss watchmaking in the 1970s and devoted its slim resources to attracting, mostly to the Biel (Bienne in French) area, new companies that could create jobs for redundant workers.

Private enterprise saved the watchmaking industry – with some help from the big Swiss banks – largely by creating through merger the SMH group. New management, under Mr Nicolas Hayek, a Zurich engineering consultant turned entrepreneur, introduced a revolutionary automated production system for the plastic Swatch and revamped marketing methods.

Foreign investors also played their part. Tornos-Bechler, the machine-tool manufacturer in Moutier, for instance, was taken over by West Germany's Rothenberger-Pittler. With a new Swiss manager, Mr Michel Suchet, in charge and with employment trimmed from 3,000 to fewer than 1,000, it is in its turn seeking to ensure its expansion by acquiring companies abroad.

Last year Beda's capacity to attract new industrial investment was reinforced by legislation, enlarging the assistance the canton can give in buying property and extending its support for concerns introducing environmental protection technology. Grants for training and retraining personnel were considerably increased.

The success of the Government's strategy is by no means assured. Critics say no clear-cut growth sector has emerged; results have been scattered and have varied in type of product, so that no critical mass has been built up. The technology park may be seen as a response to this weakness.

Müller: Jobs created at a faster rate than the Swiss average

A large problem noted by Mr André Leuenberger, Beda's president, is the shortage of land for industrial development. But this is a sensitive political issue, since there is opposition to the conversion of farmland for industrial use among the general public as well as among farmers.

Only 30 hectares (74 acres) are available to the cantonal authorities for sale or rent. Mr Müller says that some existing industrial terrain is not being effectively exploited and that buildings left unused after the watchmaking crisis of the 1970s can still be found in peripheral areas.

But he admits that, if enough land were available, "dozens" of Swiss and European concerns would be interested – mainly to establish holding companies. There would appear to be a conflict here between agricultural and industrial interests which the cantonal government is not yet ready to handle.

A tight labour market poses another problem. Mr Müller says that structural change is constantly at work and that enterprises wanting to expand or foreign companies seeking a base can always find personnel, if their terms are attractive enough.

Bernese politicians tend to see the personnel issue as one of marrying supply and demand. They argue that Bern's five engineering schools have been training skilled staff largely for other cantons.

In a report published in August the Government laid out a programme to the end of the century for expanding the schools, adapting teaching to industrial practice and bringing the schools closer to the private sector.

The importance of taxation levels in attracting industrial investment has been recognised. In a recent study for potential US investors, Price Waterhouse argued that the canton of Bern offered a very favourable corporate tax climate, even after the impact of the 1986 US tax reform had been taken into account.

So far, Bern's taxes on personal incomes have not helped companies to attract senior management or personnel with special skills. But cuts in income tax are in the pipeline.

Cantonal support has helped some successful start-ups. Disetronic, a company which set up in Burgsdorf in 1983 with an idea for a microprocessor-controlled insulin pump for diabetics, has benefited from a five-year tax holiday.

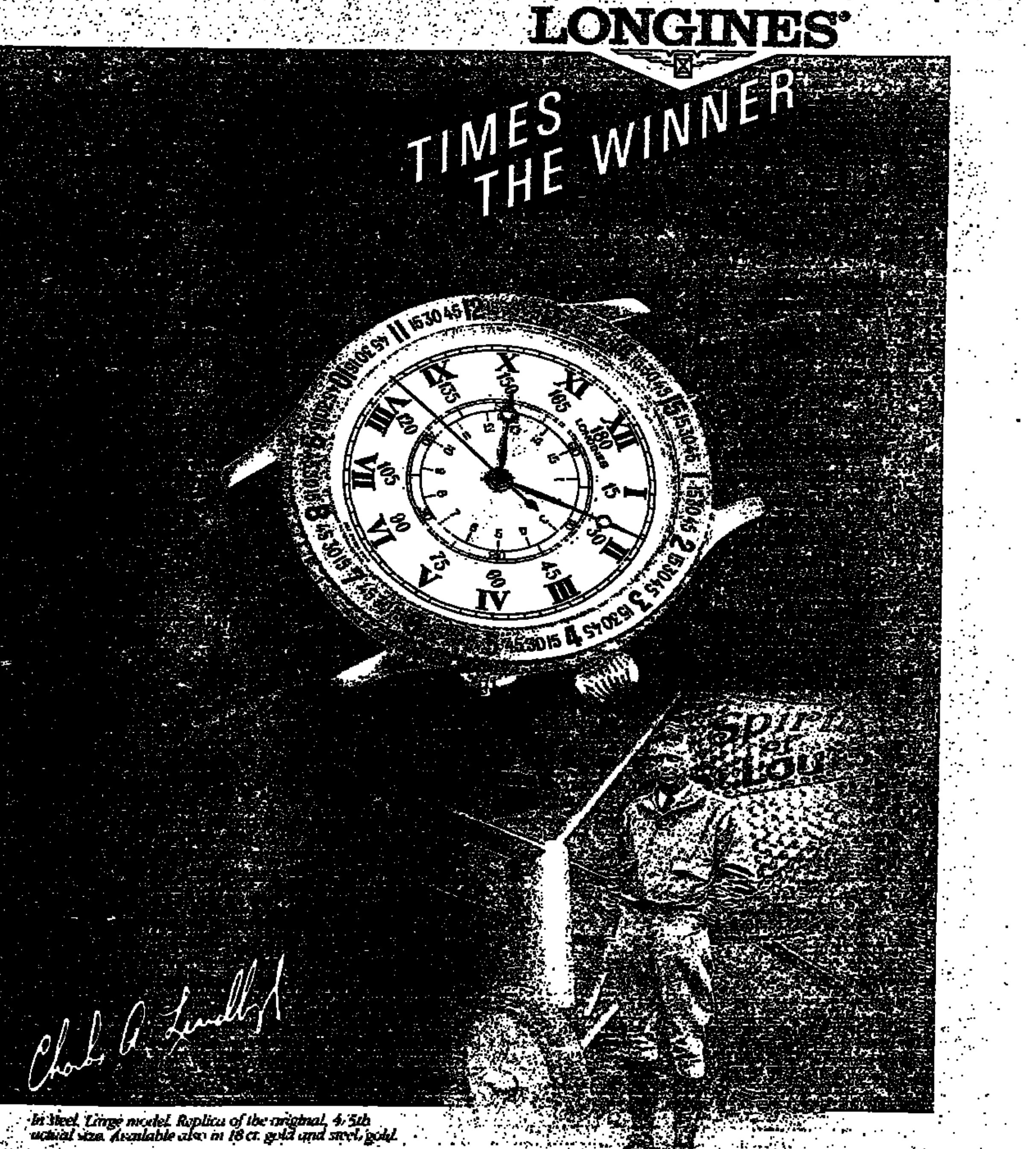
Disetronic, established with initial share capital of SFr60,000, generated a cash flow of SFr1.78m on sales of SFr8.73m in its last fiscal year and is examining ways of financing the production of new micro-infusion systems.

Recently, Bern notched up another gain, when Severin, the US company that assembles and markets watches under the Gucci label, decided to set up its base in the canton. Severin will employ some 100 people but will provide work for far more in sub-contractors supplying components.

Mr Müller, who will retire at the next election after 16 years in office, says the economic promotion policy has reversed the depopulation of the canton. Jobs have been created at a faster rate than the Swiss average.

This is true not only of the region around Biel, which was hardest hit by the recession and watchmaking crisis of the 1970s, but also of the Alpine areas in the south.

The population of the Oberland has grown by 3.4 per cent since 1977, according to Mr Müller. In Thun, Interlaken and Adelboden the number of jobs available has increased by as much as 5 per cent during the period, mainly in services but also in small industrial concerns.



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The canton, with less than one seventh of the Swiss population, is responsible for roughly one fifth of the confederation's farm output

William Dullforce on concerns about the agricultural subsidies

Farmers face double threat

FARMING IS deeper-rooted in Bernese souls and carries greater weight in cantonal politics than even its not inconsiderable economic importance would seem to warrant.

First, there is tradition. For centuries the canton was run by landed gentry and the pastures of the Emmental have given their name to a celebrated cheese imitated around the world.

Then there is recognition of the role of the mountain farmers in preserving the canton's cultural landscape and its tourist potential. And, agriculture is at the centre of the Swiss public's growing concern for the environment.

Bernese farmers and their political representatives, in spite of the esteem they enjoy, feel they have their backs to the wall at present. The menace they perceive comes primarily from the negotiations on the reform of world farm trade taking place under the General Agreement on Tariffs and Trade (Gatt) in Geneva, but they also worry about the eventual impact from the introduction of the European Community single market in 1992.

Swiss agriculture is probably the most heavily subsidised in the world. Bernese farmers receive payments of SFr150m (£60m) a year from the federal budget and between SFr30m and SFr40m from the canton, according to the cantonal agricultural department. But these figures represent direct subsidies; when various indirect supports are included the total would be trebled or even quadrupled.

An accord on farm trade would almost certainly put Switzerland under pressure to dismantle its support for agriculture. The Bernese are uneasily aware that the federal government has other Swiss interests to guard in the Gatt talks and may be forced to weigh one against the other.

The canton of Bern, with less than one seventh of the Swiss population, is responsible for roughly one fifth of the confederation's farm output. Just over 9 per cent of the labour force is engaged in farming, which is about 3 percentage points higher than the national average. On the other hand, compared with their 9 per cent share in the labour force the farmers claim to be represented by some 40 of the 200 members in the cantonal parliament.

At the present juncture of growing international pressure for agricultural reform, the structure of Bernese farming is hardly propitious. Almost half the 22,000 farming enterprises are in the mountains and only some 14,000 provide full-time occupations.

Moreover, although small farms have been disappearing faster, the average size of the Bernese farm is not much more than 9 hectares (22 acres). This is considerably lower than, for instance, in the neighbouring canton of Vaud, where three-quarters of the farms are situated in the plain and cultivation is more intensive.

Farm land in Bern is, nevertheless, expensive. Mr Willi Gerber, the senior official in the cantonal agricultural department, says that good land fetches up to SFr300,000 a hectare and will yield annually a maximum of SFr10,000 per hectare.

"It would be very difficult for our farmers to compete with the French or Spanish," he comments.

Dairy farming predominates. It accounts for about two-thirds of agricultural income in the canton and Bernese farmers own roughly one-fifth of Switzerland's dairy cattle and a quarter of its meat-producing livestock.

Production of cereals has been on the decline but the canton contains more than 40 per cent of the nation's potato-growing soil and a quarter of the land under sugar beet cultivation.

All this, however, is regarded as vulnerable to the international mood in favour of agricultural reform and, most directly, to competition from lower-cost EC farmers, should subsidies have to be curbed and import barriers reduced. There is growing doubt about the future, especially among young farmers.

The cantonal government tried to assess the situation in the report it published in June on the possible consequences for Bern of the EC single market. It found that, in a unified market, the Community's farmers would be able to produce more cheaply and that the gap between EC and Swiss prices for farm products would inevitably widen.

Logically, the more distant Switzerland became from the rest of Europe in the costs sphere, the greater the protection it would have to give to its agriculture to keep production volumes and farmers' incomes at constant levels, the report stated.

Put this way, the continuation of an independent Swiss farm policy was purely a question of financial resources. But, if Switzerland needed, for other reasons, to avoid being isolated from the Community, it could not pursue an agricultural policy which had no reference to that of the Community.

So far the Swiss, as consumers and taxpayers, have been prepared to pay the price for keeping the farms. The cantonal report fairly points out that willingness to shoulder the cost could weaken as competitive pressures from the EC grow in other sectors of the economy. The food processing industry, seeking to stay competitive, could see its interests best served by lower protection for agriculture.

Accordingly, the report concluded, Swiss agriculture could be pressed into an accelerated restructuring which would be to the detriment first and foremost of small farms. This would be particularly arduous for a canton such as Bern, in which the size of farms was below the national average and in whose mountain regions only compensatory payments and supplementary subsidies were able to maintain a minimum of inhabitants.

Nevertheless, Bern cantonal policy, as spelt out in the 1988 administrative report of its agricultural department, continues to be to "maintain and promote the existence of the largest number possible of family enterprises – in particular small and medium-sized farms and mountain farming properties – while moving towards a production in conformity with market needs and the demands of the environment."

THE STOCK EXCHANGE

A bijou bourse

ALTHOUGH BERN, the federal capital of Switzerland, is hardly one of its leading financial centres, it is the home of a small but sturdy stock exchange which has been in business for over a century and is still going strong. In an age of globalisation and centralisation, it sees itself as living proof that second-string exchanges still have an important role to play.

The bourse, which started trading in 1885, is privately operated by the Berner Boersenverein (Bern Stock Exchange Association) and, unlike the much bigger operations in Zurich, Geneva and Basle, not directly subject to control by the cantonal authorities.

The local element is, however, very significant. All the member banks have their headquarters or at least an operational presence in the city, and the bourse offers a platform for both listed and unlisted companies in the region as well as serving local investors.

Not that Bern is a small-town show in its scope of

The privately operated bourse started trading in 1885

traded securities. These include 1,672 bonds and 135 shares issued by a total of 518 companies, institutions and public authorities, whereby 13 of the equities and as many as 746 of the bonds are in the names of foreign borrowers.

As far as trading volume is concerned, last year saw a fall of 17 per cent in turnover – a rather sharper drop than that experienced by other Swiss bourses – to SFr3.86bn. The number of bargains remained almost at 1987 levels, though, declining by only 1.2 per cent to 23,968.

The current year has seen quite a recovery, even though it will doubtless be a long time before Bern gets back to the record activity booked in the months before the October 1987 crash.

For the first three quarters of 1989, turnover was up 8.6 per cent over the corresponding period of last year to SFr3.11bn and bargains by 5.8 per cent to 18,621.

The recent unrest has, of course, not been without its repercussions, September turnover having been 25 per cent below that for August – but still some 8 per cent above the figure for September 1988.

The past two years have seen additions to Bern listings, among them a number of local companies.

While a few of these, such as Omni-holding (Bern) and Mikron (Bienne) are also quoted elsewhere, many are traded only there. Local equities range from mountain railways through banks and retailers to industrials and holdings. It is in the local sector participation that the future of the Bern exchange lies, says Mr Juerg Niederhaenser, its sole manager.

An important task in this connection is, he points out, the "bringing-out" of pre-market stock into full listed status. Recent examples have been the Intersport Group, the Loeb retail concern and the savings bank Ersparniskasse Nidau. As far as unlisted securities are concerned, Bern has become something of a centre for this category since Swiss Bank Corporation moved its corresponding activities from Basle head office to the Bern branch.

In another field of trade, the so-called grey market in pre-issue bonds, Bern is also an important location. However, this business is in the hands of such individual institutions as Swiss Volksbank and does not affect the stock exchange as such.

Membership of the bourse is soon to expand. The savings bank Ersparniskasse von Konolfingen, now with a presence in Bern, is to join at the start of next year and begin trading in March. At the same time, two existing members, the cantonal institutes, Cantonal Bank of Bern and Hypothekarkasse des Kantons Bern are due to merge. There is still room for another member in the premises in the Old Town's Aarbergergasse, says Mr Niederhaeuser.

At present, there are 13 members including the Swiss National Bank in a non-trading capacity, Credit Suisse holds the presidency.

The Bern exchange has much shorter hours than its bigger compatriots, but these have recently been extended slightly. Main dealing now starts at 10.30 am, instead of 10.45, and runs until "at least 11.15." Former plans to lengthen the pre-market trading period have not been carried through, though. "Ten minutes are enough," says the manager.

Small as the exchange is, it houses a modern operation. Like the Lausanne bourse, Bern has a computerised price list and is linked to other Swiss exchanges through the Investdatasystem. Bern did, in fact, scrap the Ring information system (RIS) having introduced it before even Big Brother in Zurich.

Bern stockbrokers are convinced that their local bourse

It offers a platform for both listed and unlisted companies

still has a *raison d'etre* in an era when Zurich, Geneva and Basle, the three member exchanges of the Association Tripartite Bourses (ATB), are about to go ahead with their plans for the Swiss Securities Trading System (or EBS for short).

Member banks of the Bern exchange are being called on for their reactions, but there is not the faintest chance that this will make them feel like throwing in the towel.

On its planned inception in the summer of 1991 the EBS system will, after all, be used only for trading in straight bonds.

"We are not affected," says Mr Niederhaeuser, who adds that Bern will continue to trade bonds by the traditional open outcry. He also points out rather sceptically that the EBS gained approval in Zurich last month with a squeak-through majority of a single vote. A lot of water will have to flow under the Aare bridges before Bern stockbrokers stop calling the prices.

John Wicks

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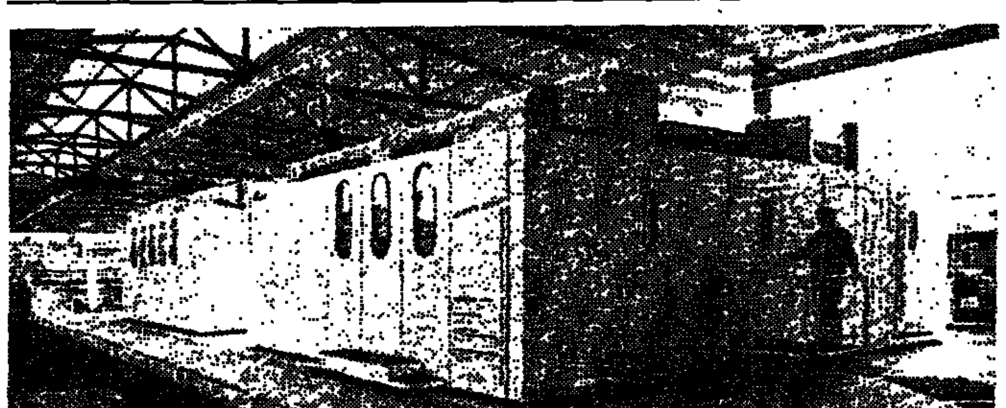

For $4.2m Lasarray is offering a mini factory to produce Asics

PROFILE: Lasarray

The boards of the future

LASARRAY, a Swiss enterprise established in Biel in 1985, offers a good example of the kind of advanced technology company that the canton of Bern wants to attract.

It has developed a mini plant which uses laser technology to fabricate application specific integrated circuits (Asics).

The Asic has been called the printed circuit board of the future, because it allows designers to put the electronic equivalent of an entire printed circuit board on a single integrated circuit or chip.

Until now, when a systems engineer creates a design, he has to rely on a semi-conductor manufacturer to process his chips. The manufacturers, with plants costing $100m (£63m) or more, prefer mass production runs. A designer, requiring a relatively small batch, may have to wait a month or more for his chips.

For $4.2m Lasarray is offering a mini factory that allows companies to produce cheaply and quickly in-house small runs of Asics designed by themselves. It is contained in three modules, which together take up less than 70 square metres of floor space.

An engineer can be trained in two days to use Lasarray's software to design chips. With only four people operating it the plant will produce tested chips from the company's own design in as little as 24 hours, it is claimed. Two plants have been sold to the Academy of Sciences in Leningrad.

Lasarray, founded by Mr Ernst Uhlmann, owner of Fela, a Swiss printed circuit board company based in the canton of Thurgau, was attracted to Biel by the opportunity to buy an empty factory, the availability within the area of high precision mechanics and component suppliers, and promises of tax benefits.

After investing some SFr30m, (£11.7m) of which two-thirds went into research and development, and setting up a subsidiary in Irvine, California, the company expects to make its first profit this year on an expected sales total of SFr26m, according to Mr Rolf Sigg, vice president responsible for marketing.

Lasarray's future remains risky, even if it is still the only company in the world able to deliver a working mini plant for making Asics and it should have a second generation model on the market next year. Demand for Asics was forecast to quadruple between 1988 and 1990 but competitors in the US, Israel and France are also working on "chip-dispensing machines."

Another possible threat is posed by the big semi-conductor manufacturers which could devote resources to developing equipment to satisfy the market for small-batch Asic production.

Mr Sigg acknowledges that Lasarray has had to "wait for the market to catch up" but is optimistic. Lasarray has been recruiting more engineering graduates. This year it has sold one unit to a European company, and another to a Polish company, which is establishing an Asic producing centre, partly to serve customers in western Europe.

A US corporation appears to be hooked and sales to India are waiting for a decision on currency transfers. Other big European and US companies have been talking to Lasarray.

So far, the company employs only 25 people in Biel but it has given work to hundreds of suppliers. According to Mr Sigg, it has room in its present building to provide jobs for 100 people.

William Dullforce

BERN-BELP

Capital airstrip

ONE SMALL sign of changing attitudes was the privatisation of Bern-Belp airport in 1987.

Members of the chamber of commerce; banks; Crossair, the Swiss regional airline and some smaller shareholders took over Alpar AG, the company running the airport and its taxi aircraft business, from the canton and municipality.

They increased the share capital from SFr500,000 (£200,000) to SFr3m and, in spite of the modest size of the airfield and the restrictions imposed by environmentally conscious neighbours, they are offering more and more scheduled flights to European centres such as Brussels, Paris and London.

Last year Alpar made a net profit of SFr21,000 on an income of SFr5.5m. The bulk of the regular airline traffic comes from tourists but, within two years, the company has started to gain the respect, even affection, of local business people for the convenience of its links to a few specific destinations.

The federal capital's pride has long suffered from the fact that Switzerland's two truly international airports are Zurich-Kloten and Geneva-Cointrin. By comparison Bern has had to make do with little more than an airstrip.

However, Bern-Belp is only 15 kilometres from the city centre and it offers a quick check-in. One Bern banker expatiates on the convenience of being able to reach his destination in Brussels in a little over two hours instead of having to make the 1 hour 10 minute drive to Kloten and wait another hour for his flight.

Mr Ueli Augsburger, the cantonal finance minister, with the idea of attracting multinational holding companies to Bern always at the back of his mind, is eager for the airport to develop facilities for executives' travel. At present business jets account for about 5 per cent of the traffic.

Bern-Belp says it stays open for all but 10 days a year. One constraint is a runway of only 1,310 metres, which cannot be extended because of environmental and political pressures.

Flying Crossair's Saab SF 340 Cityliners, passengers can get to Paris or Brussels and back in the same day. Dan-Air offers a daily connection with a BAe 146 "whispering" jet to Gatwick airport and is starting a Sunday link direct to Manchester. Düsseldorf can be reached every weekday.

Crossair plans to extend to Rome at least one of its three daily flights to Lugano. In the category of "hopes" are the possibilities of daily links to London's City Airport and to Berlin.

With the volume of aircraft movements approaching 90,000 a year, Mr Heinz Müller, Alpar's managing director, is talking about having to curtail the activities of the airport's flying school.

William Dullforce

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LEGAL COLUMN

Blue Arrow and the role of the solicitor

By Robert Rice, Legal Correspondent

THE REACTION of City lawyers to the arrest, among the Blue Arrow 11, of Travers Smith Braithwaite partner Mr Alan Keat has been rather as though, to borrow a phrase from P. G. Wodehouse, collectively bending down to pluck a daisy from the track they had been struck by the down express in the small of the back.

As the surprise has slowly given way to feelings of dismay this week, there can be few involved in the corporate finance area in which Mr Keat has built his reputation who have not said to themselves "there but for the grace of God . . ."

Broadly, Mr Keat is charged that between September 1987 and January 1988 he conspired together with the 10 other accused and others to defraud people who had or might have had an interest in dealing in shares in Blue Arrow plc, or National Westminster Bank plc, or in dealing on the FT-SE 100-Share Index.

Amid the surprise at his arrest is real concern about the implications of the arrest for the role of the solicitor as an independent adviser.

Most lawyers feel that the charges imply that advice need not necessarily be dishonest in order to lay the solicitor open to the possibility of criminal liability. If that is so, they feel, it is going to slow the whole business decision-making process considerably.

With the additional personal risk of criminal liability to consider, lawyers are going to be more reluctant than ever to give advice on the spur of the moment.

Solicitors are going to want to consult with fellow partners before committing themselves.

It is not impossible to imagine situations where the delay involved in such a consultation could be fatal to a deal. Clients, increasingly used to demanding and receiving instant advice from their lawyers on any number of complex matters are not going to like this development one bit. The temptation will be to say to the lawyers: "If you can't provide us with the service we want, we will hire someone who can."

The competitive pressures on lawyers are such these days that many of them, faced with such a situation, will be tempted to sail ever closer to the wind.

The consequences of that for the legal profession do not bear thinking about. If, on the other hand, a solicitor can find himself in the dock for simply "being there" as legal adviser to a company or financial institution which subsequently faces criminal charges, the implications for the profession are no less worrying.

Some lawyers this week have openly begun to wonder whether this is not a timely warning of the dangers inherent in the proactive role commercial lawyers are required to play these days.

There is no doubt that over the last five years, particularly in areas such as mergers and acquisitions, lawyers have taken an increasingly active role in the business process.

At the Law Society conference in Cardiff last year, Sir John Harvey Jones, former chairman of Imperial Chemical Industries, told lawyers what many of them already knew, that business required its lawyers to be positive and specific, totally involved in a company's affairs and sharing its aims.

Is there a danger, however, in this increasingly proactive role that some lawyers may become too closely involved to see clearly what is going on, that in the heat of the deal they may lose their objectivity?

If such a danger exists, what does it mean for law firms? Does it, for example, mean that before long they are going to have to establish their own compliance departments? Or that on major deals the team of lawyers directly involved will have to be shadowed by a lawyer or team of lawyers who will monitor the advice they are giving? The prospect fills many lawyers with horror.

Mr Ronnie Fox, senior partner of Fox Williams and deputy chairman of the City of London Law Society, says that in the cases in the past where solicitors have found themselves in trouble for becoming too closely involved in the business decision-making process it has generally been because the solicitor concerned has been a non-executive director of the company.

Clients require proactive lawyers and positive, constructive advice, he says, but there is a world of difference between that and being involved in the decision-making process and the financial risk involved in the deal. Lawyers have to learn to separate the two. Mr John Grieves, head of the corporate finance group at Freshfields, believes the immediate consequence of the Blue Arrow affair is that it will make lawyers more vigilant. Freshfields operates a two-partner rule on all large transactions and will be taking steps to extend that procedure.

The two-partner rule is now widely used by a number of City law firms. Blue Arrow underlines the importance of collective discussion on difficult points, and of not leaving a partner isolated, Mr Grieves says.

Mr Andrew Walker, joint managing partner of Lovell White Durrant believes it would be "crazy" to have one team of lawyers monitoring the advice being given by another.

Mr Walker has first-hand experience of this type of situation. While in Hong Kong he acted for a partner of Deacons who was charged with conspiracy to defraud for his role in the Carrian affair.

The allegation against his client was essentially that he had advised that the transaction could be done in the way it was carried out.

The case was eventually dropped, he says, but the point is that if advice is wrong it doesn't follow that it is dishonest, and even if it is wrong it is not necessarily a breach of the solicitor's duty to the client, either.

The US law firm Pepper Hamilton & Scheetz operates a two-partner rule on all important opinions, according to Mr Bate Toms, one of their resident London partners. But if you are going to have a second person around for every piece of advice on every transaction, then legal fees are simply going to double, he says.

The view from the UK is that US lawyers are far more open to the risk of prosecution in this area because of their traditionally closer relationship with business and the business decision-making process. But that is not really the case, he says.

There have been three or four cases where the Securities and Exchange Commission has prosecuted lawyers at a closing on a share issue and a handful of cases brought by the Internal Revenue Service for fraudulent tax advice.

But in general, the SEC takes the position that it does not prosecute honest mistakes, he says.

The key is to make a distinction between casual legal advice and formal opinions. Lawyers should be made more responsible for formal opinions, where the client intends to rely on the advice, than for casual advice, he says.

Criminal prosecution should follow only where advice has been given in bad faith. He would not like to see a criminal burden placed on good faith advice and the making of simple errors. A consequence of sending people to prison for wrongful advice given in error would be to make people slow down and be more careful. That would lead to a less efficient and more cumbersome system.

"You don't take a scalp to keep the Indians in line. That's no good. All you end up with is cowardly Indians and nothing gets done", he says.

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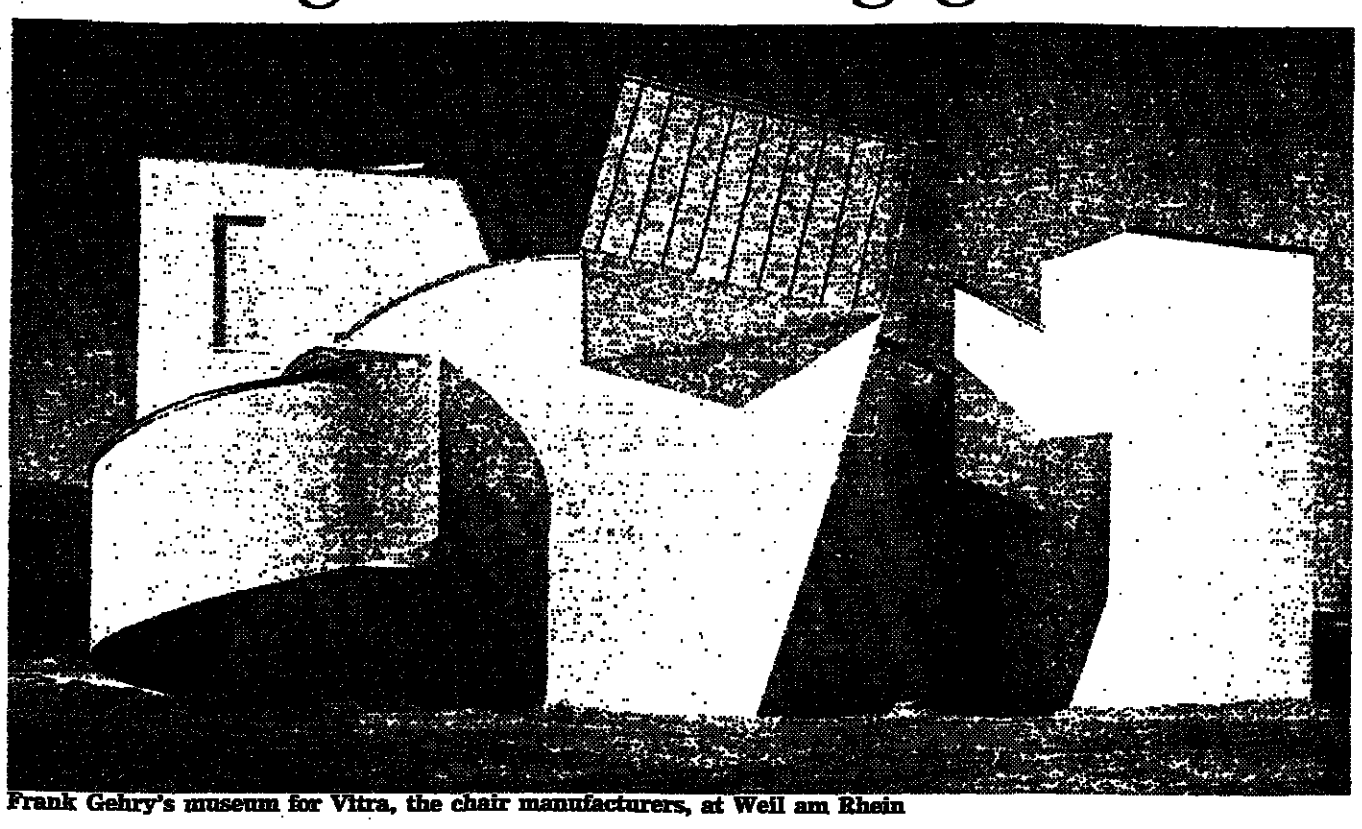
ARCHITECTURE

Museum through the looking-glass

The initial view of the new museum at Weil am Rhein is an extraordinary visual shock. The site is not spectacular, a flat green field alongside hills and vineyards very near Basel, but just inside Germany in that part of Europe where France, Germany and Switzerland meet. Things all around are neat, clean and orderly. But American architect Frank Gehry has shaken things up with his design for a museum added to the chair manufacturer Vitra's factory, designed by Nicholas Grimshaw.

Frank Gehry, who this year won the Pritzker Prize (an American "Nobel Prize for Architects"), is best known for a series of original and sometimes disturbing buildings in California. He has an undoubted affinity with contemporary art both abstract and expressionist. He is exploring the same spatial fields that interested the artists of the Russian avant-garde in the 1920s and the plasticity of much of his work has affinities with German Expressionist sculpture.



Frank Gehry's museum for Vitra, the chair manufacturers, at Weil am Rhein

For much of his working life Gehry has collaborated with artists, particularly Richard Serra and Claes Oldenburg. It was his connection with Oldenburg which first brought Gehry to the attention of Vitra: in 1983 he assisted in placing the large Oldenburg sculpture, "Balancing Tools," outside the Vitra factory.

Gehry's commission from Vitra was to build additional facilities for the manufacture of the best examples of modern chairs, many of them designed by architects. Adjoining the factory the company wanted a small museum to house one of the largest collections of chairs (dating from the 1850s) in the world. Vitra describes the need for a museum as a "desire to document its own roots."

The company brought the designs of Charles Eames to Europe and has continued to produce innovative modern chairs. Its new factory is simple and straightforward. The new museum is not.

Gehry specialises in making his buildings look as though they have been shattered and casually reassembled. The separate elements like staircases and canopies adopt free and relaxed forms. They climb all over the building without any apparent external logic. The cruciform skylight, which is set at an incline to the barrel vaulted roof, appears to have been dropped on to the building from the sky.

Gehry seems to enjoy dividing everything up into small units, shaking them together in a sack until they interlock, and then placing them together on the site. In the Vitra Design Museum all is apparently provisional and relaxed on the outside. Inside there is an amazing resolution, a sense of brilliant light and complete control of the manipulated spaces.

I think it is a satisfying, clever building. How curious it is that it has landed in an area of Europe that seems to have nourished architectural originality: its near neighbours are Le Corbusier's chapel at Ronchamp and that extraordinary Rudolph Steiner building, The Goetheanum.

French and German influences combined with an American sensitivity have produced one of the most original small new buildings in Europe. The architect himself said that he felt a familial relationship with the two strange neighbours and that his architectural designs had been nourished by the "genes of the area."

The brilliant white plaster walls and the zinc roofs make a vivid sculptural presence. The interior has a logic which is at first surprising. You expect as you walk inside to feel as though you are wandering into a hollow sculpture. It is no dark series of tunnels, however. There is light from above, although there are no windows and the upper level gallery beneath the soaring interlocking arches of the roof is wonderfully lit.

I loved walking up the curved sweeping ramps to reach the glowing top spaces. There is a sense of having walked through the looking glass – things are not what they seem; there are strange angular views down into the lower floor.

The collection of chairs continues to give the visitor a sense of unreality. There is something surreal about chairs being arranged on the walls and there being nowhere to sit down.

The opening exhibition scarcely fulfils the museum's declared objective to be "a place which will clearly explain the design process to a wide range of people." Perhaps unwittingly, Frank Gehry has given the Vitra Company a museum that is such a work of art on its own terms that the chairs do not seem very significant. More powerfully mounted exhibitions will be necessary.

The company is to be congratulated on giving Frank Gehry his first European commission. He is an architect who has grown away from the chain link fencing and plywood that marked his early Californian work. He seems like a sculptor who works away at his maquette until it produces a personality of its own. He has come a long way from the days when he cut holes in houses. The museum has both form and meaning and he has shown in this small building how architecture really is about the third dimension: it gives you a rare frisson of architectural excitement.

I hope Frank Gehry's next major building can be in Britain, but we will have to wait for the American Cultural Centre in Paris and the Walt Disney Concert Hall in Los Angeles to be completed.

Colin Amery

We, the Undersigned

ORANGE TREE THEATRE, RICHMOND

Sam Walters has achieved his customary miracle in the tiny acting space above Richmond's Orange Tree pub. This decade-old Soviet satire by a friend of Mr Gorbachev (nevertheless rejected as a conference delegate by the Moscow Communist Party) recounts a frantic few hours of desperate wheeler-dealing among bureaucrats on a train.

Mr Walters' direction and Tom Piper's set give us an open-plan carriage whose invisible compartment doors slide open and slam shut in sync with offstage sound effects, whose transparent walls thud sharply when human cranium makes contact, and whose territorial demarcation lines we uncritically accept. Only when the unseen tenant of an imagined upper bunk is addressed do we balk.

All of which is in keeping with a first half that is well within the tradition of Gogolian caricature, just this side of the grotesque, with its bullies, self-important officials and tricksters. Or rather, trickster. But unlike Gogol's spurious Government Inspector, the frantic Lenia falls on two counts: his mission is unaccomplished and he has genuine illusions, to be shattered in the course of the play.

Alexander Gelman's *A Man with Connections*, broadcast on the BBC and seen in Edinburgh and London, has given us a foretaste of this author's preoccupations with workplace relationships, the merging – or clashing – of personal morality and professional responsibility.

Here we have a three-person (two men, one woman) delegation from the Regional Executive Committee leaving after refusing to sign their approval of a newly-built bread factory. The ebulliently confident, but increasingly distraught Lenia, from the Regional Construction Committee whose work has been found wanting, pursues them in an attempt to make them sign the all-important document.

An unknown to them, Lenia strikes up acquaintance with a fatuous stratagem involving sticking his train ticket between two panes of glass. (This provides a fine opportunity here to flay the petty führers of public transport, the same the world over, it seems, whether Russian conductors slamming doors on a passenger's foot rather than admit entry through the wrong side of the train, or the one-man anti-humanity movement of the driver of a number 68 London bus.)

Deception flounders into confusion with the unexpected appearance of Lenia's wife, promptly suborned into playing an unwilling role, the clumsy co-operation of a colleague's heavy-handedly jocular deceit, and the slow tangling of paranoid threads of suspicion about the motives of colleagues and bosses; bluff and double-bluff, currying favour, red tape, moral blackmail, disguised threats.

If this is typical of the workings of Soviet bureaucracy, perestroika came not a second too soon.

The play's second half, in fact, goes serious on us. Lenia is not merely an opportunist prepared even to see his wife fondled by a drunken official, but passionately committed to supporting his superior for what seem to be reasons of genuine idealism.

The message comes over uncompromisingly: the system undermines clear definitions of truth and falsehood; this is echoed down the line, even in personal relationships. Official duplicity, personal paranoia, nothing being quite what it seems, are inevitable concomitants. No wonder he never made a Party delegate!

The focus sharpens from caricature into reality but the play loses its consistency. So does the character of Lenia, despite a mammoth performance from Eric Deacon as the cocky but inept manipulator whose fall you can see coming a mile off.

The acting, as usual at this address, is admirable throughout. Invidiously, I would single out Julia Hills as Lenia's wife, pretty, vulnerable, at the end of the marital tether; Michael Elwyn's ramrod correct chief official, finally corrupted into suspicion and uncertainty; and, making much of little, Sam Cox as Lenia's laconically resigned colleague, casually riding the system rather than bucking it, whose cool pragmatism just this side of spivvishness bespeaks the born survivor.

Martin Hoyle

Madame Butterfly

COLISEUM

No matter how often *Madame Butterfly* is put on, it always draws a full house. There was not a seat left for the first night of this revival on Saturday, even though English National Opera has revived its production by Graham Vick regularly in the five years since it was new and the cast was more or less the same as the last time it was shown.

The benefit of that sort of continuity is that the singers live in their roles and can work together to give an integrated performance.

Whatever doubts one might have had over details, this was a taut and dramatically involving account of Puccini's most deeply-felt opera – a moving evening almost in spite of the production itself, which shuns the real world that the composer sought to create in favour of a highly stylized "psychological" drama.

Although I do not recall it happening to date, it is possible to imagine this *Madame Butterfly* becoming a rather sterile affair. So it was good to find on this occasion a musical performance that invested it with plenty of life.

The dynamic lead of the evening came from the pit, where the conductor Antonio Pappano (making his British debut) set out to maximise the impact of the orchestra, driving the music to contrasts more extreme than we are accustomed to hear in this house.

The flow and dramatic sense of the score were none the less well handled and the only serious reservation was that he encouraged the orchestra to play too loudly.

We are used to conductors giving us less volume here so that we can catch the words. To that end it was fortunate that English National Opera was again fielding in the title-role Janice Cairns, a singer who has the right weight of voice to carry over a Puccini orchestra in full flood: her Butterfly is a marvellously intense portrayal.

Edmund Barham and Norman Bailey also returned as Pinkerton and Sharpless respectively, both giving decent accounts of themselves.

The most heartwarming performances, however, came from Anne-Marie Owens's Suzuki and the little Japanese Sorrow, who between them made the relationships on stage as natural as if they were real life. That, in the last resort, is what the opera is all about.

Richard Fairman

Animal

ICA THEATRE

Gary Stevens is one of those performers who is always compared to someone. Buster Keaton, I see, crops up. I favour a heavily sedated Gene Wilder. The point is, he projects some strange, unbounded personality, certainly redolent of the comic silent screen, while retaining his own secrets of the universe. He is characteristically poised between the worlds of humdrum everyday reality and the voices of the unknown.

In *Different Ghosts* last year, a whimsical Victorian household collage, he followed darkness like a dream to sweep the dust behind the door. That Robin Goodfellow act is now succeeded by *Animal*, written and directed by Stevens, designed in collaboration with Geraldine Pilgrim, an even more curious scenario of haunting dialectic between suburban adults and their resident cuddly toys.

The cast of five assembles in and around a magic circle packed with dozens of wonderful toy bunnies and teddies. A squeaking animus is heard among the sea of nylon fluffiness; a frog has got among the rabbits. The animal spokesman, the curly-headed, plum jump-suited Penny Skerrett (who, if we are counting resemblances, looks like Malcolm McLaren) emerges from behind a leather chair.

The other actors represent the family locked in the domestic traumas of separation, reunion, small talk and breakfast. The search for one particular rabbit is savagely conducted, the whole menagerie thrown to the back of the acting area. Thence the animals re-surface as puppets, arm extensions and nerve ends.

The way the adults (lush Kate France and pernickety Neale Goodrum) litter their speech patterns and reflexes with baby talk and absolute instructions blurs the line between how we treat animals and speak to children.

The short 70-minute performance now becomes an illustrated behavioural study, with sharp revue-style scenes and memorably etched tableaux.

Stevens hovers vacantly around the action, now a naughty boy at table, clipped round the ear, now silently communing with the clocks and cabinets that girdle the room.

He is an unappropriated alien, representing both the inanimate innocence of the cuddly toys and the mute affections of an unloved child.

The sexless toyboy syndrome is infectious. When "Dad" returns home, Andrew Davenport (Stevens' brotherly alter ego and chief foil, a Stephen Fry clone in a rust smoking jacket) flattens him on the welcome mat like a slobbering dog.

The piece is as interesting as it is delicate. It extends the language of domestic sit-com into the realms of the literally unspeakable, the beast beneath the stairs. A group of little wind-up toys finally displaces the humans, emerging from Hamley's bags to occupy the sitting-room rug. Stevens, goggle-eyed and daft, steps into the limelight. His hour has come.

Animal can be seen at the Leadmill in Sheffield tonight and at the Ashcroft Centre in Fareham on Wednesday. Next year, it will be part of the touring British Art Show, and worth catching.

Michael Coveney

Maurizio Pollini

FESTIVAL HALL

The autumn part of the South Bank's International Piano Series reached its pinnacle last Thursday with an appearance by Maurizio Pollini in magisterial form.

With an appropriate simplicity, the programme was made up in equal halves of Schubert and Liszt sonatas, together with a few smaller Liszt pieces, including his autumnal *Nuages gris*.

For Schubert, as he has shown before, Pollini has developed a style that is entirely personal. There is little in his playing of the later sonatas that would recall the rigorous classicism of a Serkin or the detailed study of a Brendel.

Everything in the G Major Sonata, D.894, was pared down to its simplest form and retold in colours meltingly soft or firm and clear. It is a perfection of its own kind.

In the long first movement Pollini clearly feels little need to go out and grasp the listener's attention. He simply recreates the music as written, serene and straightforward. Even in the final Allegretto, a more playful movement where other pianists (if they are Viennese Schubertians) can nudge the rhythms to give a Ländler lilt, he remained technically beyond reproach.

On his return for the Liszt B Minor Sonata in the second half, Pollini brought back the same style, but raised to its most impressive, awe-inspiring scale. The single word that perhaps sums up his playing is truthfulness.

After hearing Pollini, it is difficult to see why other performers should always need to rush at the virtuoso passages for excitement or add unwritten rubato for emphasis.

Without the slightest theatrical gesture, Maurizio Pollini delivered a performance of unrivalled power and intensity. Yet if you had never seen the score, it would surely have been possible to make from his playing a perfect copy of what Liszt actually wrote, down to each marking on speed or dynamics.

If that sounds unexciting, I can only add that last night's audience will be lucky ever to hear again the sonata's climax played at that speed: astonishing bravura.

Richard Fairman

Yury Bashmet

WIGMORE HALL

Viola recitals do not predictably sell out the Wigmore Hall, but Yury Bashmet has no trouble in that respect. He is one of the most authoritative and irresistible instrumentalists in the world today, to the viola what Rostropovich is to the cello and Richter to the piano.

He mesmerized his audience on Thursday night with his endlessly intelligent musicianship and the beauty and infinite variety of his tone.

His basic sound easily fills the hall: one is taken aback at first by its amplitude and its punch, yet there is no doubt that the sound is pure essence of viola and not some distortion of another instrument.

At the same time Bashmet is brilliantly able to imitate other instruments when it suits his expressive purposes. His use of *flautando* effects in the first of his encores, Fauré's *Pavane*, was such as to transform the viola fleetingly into a bamboo flute or an *ondes martenot*, but without the least hint of showmanship. It was an extremely touching performance.

The work with which he and his hardly less admirable piano accompanist, Mikhail Muntian, began, a Suite in D minor by Marin Marais, originally written for bass viola, was made to seem as profound as a suite by Bach. The sudden tonal contrasts of the viola playing, its scoops of rare colour, lovely *portamenti*, rhythmic decisiveness, and pingingly accurate intonation were wondrous to hear.

Schubert's *Arpeggione* Sonata particularly showed off Bashmet's deft pizzicato playing. The contrasting accounts of Hindemith's intricate, impassioned Sonata Op. 11 No. 4 and Britten's spare and reserved *Lachrymae* Op. 48 were devastatingly fine – not just beautiful but like a dream of beauty.

Paul Driver

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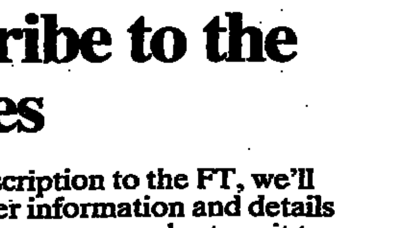

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FINANCIAL TIMES

ARTS GUIDE

November 20-23

MUSIC

London

English Chamber Orchestra conducted by Daniel Barenboim. Mozart (Mon). Barbican Hall (638 8891).
Budapest Symphony Orchestra conducted by György Lehel, with Peter Frankl (piano). Bartok, Mahler (Tues). Barbican Hall (638 8891).
Orchestra of the Age of Enlightenment conducted by Sigiswald Kuijken. Haydn (Wed). Queen Elizabeth Hall (928 8800).

Paris

Katia Ricciarelli recital (Mon). Salle Gaveau (45632030).
Ensemble Orchestral de Paris conducted by Theodor Guschlbauer, with Marc Laforet (piano). Honegger, Saint-Saens, Haydn (Tue). Salle Pleyel (45638873).
Orchestre de Paris conducted by Semyon Bychkov, with Maria Tipo (piano). Strauss, Mozart, Schoenberg (Wed, Thur). Salle Pleyel (45630796).
Aldo Ciccolini, piano. Schubert, Liszt (Thur). Salle Gaveau (45632030).

Brussels

Belgian National Orchestra conducted by Georges Octors, with Andre De Groote (piano) and Dominique Cornil (piano) playing Haydn and Mozart. Palais des Beaux-Arts (Tues).
Borodin Trio plays works of Dvorak, Haydn and Tchaikovsky. Palais des Beaux-Arts (Thur).

Munich

New American Chamber Orchestra with Misha Maisky (cello). Mozart, Haydn, Paganini and Janacek (Mon). Herkulessaal der Residenz.
Munich Radio Orchestra and pianist Mitsuko Uchida, conducted by Colin Davis. Ravel, Brahms (Thur). Philharmonie im Gasteig.

Rome

Bach's Brandenburg concertos conducted by Thomashengelbrock, with Gunther Beetz (trumpet) and Vladislav Klosiewicz (harpsichord), spread over two evenings, (Tues, Wed). Teatro Olimpico. (393304)

Milan

Riccardo Muti conducting Brahmas and Prokofiev (Mon) (80.91.26).
Teatro alla Scala.
Piano recital by Lazar Berman: Handel, Clementi, Beethoven and Liszt (Wed) Conservatorio G. Verdi.(76001755)

Vienna

Beethoven Trio. Mozart, Furrer, Rihm, Beethoven. Konzerthaus. (Mon).
State philharmonic from Bruno and Neues Wiener Vokalensemble, conducted by Paul Polvinick. Musikverein. (Tues).
Wiener Symphoniker, conducted by Horst Stein. Brahms, Richard Strauss. Musikverein. (Wed., Thurs)

New York

New York Philharmonic. Zubin Mehta conducting with Natalia Gutman (cello). Mussorgsky, Shostakovich, Dvorak (Tue). Avery Fisher Hall (874 6770).

Washington

Philadelphia Orchestra conducted by Yuri Temirkanov with Luigi Bianchi (violin). Weber, Mendelssohn, Sibelius (Mon). Kennedy Center Concert Hall (467 4600).
National Symphony Orchestra conducted by Rafael Fruhbeck de Burgos. Falla, R. Strauss (Thur). Kennedy Center Concert Hall (467 4600).

Chicago

Chicago Symphony Orchestra conducted by Neeme Jarvi. Part, Scriabin, Mussorgsky (Wed). Orchestra Hall (435 6666).

Tokyo

Royal Philharmonic Orchestra conducted by Vladimir Ashkenazy. Beethoven. Bunkamura, Orchard Hall (Mon) (403 8011).
Alban Berg String Quartet. Beethoven, Mozart, Schnittke. Suntory Hall (Wed) (235 1651).
Narciso Yepes (guitar). Albeniz, Bach, Rodrigo. Ishibashi Memorial Hall (Thur) (780 5400).

The Master Builder

THEATRE ROYAL, BRISTOL

Timothy West was born to play Halvard Solness, the solid, selfish builder who regards his emotional excursions as mere subcontracts in the organisation of his life.

Kaja, helplessly devoted to him, is busy with his papers when he first comes on, and all he has to say to her is, "Why do you wear that eyeshade?" His wife Aline has long been treated simply as a necessary item in the house, since her own house burnt down and her twin sons died.

Then comes the unaccountable Hilde Wangel, to break it to Solness that for 10 years she has been determined to make him keep literally the silly promises he made her as a child, to get him to climb the scaffolding of the tower of the new home he is building for himself.

She knows he is scared of heights; but he did it once, and he must do it again as he promised, a symbol of the wonderful life he pictured. Naturally Solness falls and kills himself.

West is beautifully untouched by anything beside his current concern for Hilde, and never earnestly sentimental over her. "You lost both your little boys?" she asks him. "Oh, *them*," he says (in Michael Meyer's translation, at its most admirable in its apt treatment of ordinary phrases).

He is heartless in his neglect of the designs by Ragnar, the son of his old partner and fiancé of Kaja, and quite unmoved by Kaja's speechless distress.

He is allowed two modest embraces with Hilde, but nothing visibly sexual.

So what is Hilde like? At 23 years old, she acts as if she were still 13. We know there is something in her of Ibsen's own middle-aged affair with the 18-year-old Emilie Bardach. Olwen Fouere projects the suggestion of deliberate cruelty, like a child plucking the wings off a fly. "You're still wearing your climbing outfit?" Aline asks. "Dressed to kill," Hilde agrees.

Maureen O'Hara's Aline is always dignified and courteous, whatever her problems. Kaja, on the other hand, has misery written all over her by Kate Lynn-Evans, and with the prospect of life with Adrian Scarborough's colourless Ragnar, I don't wonder.

Sally Crabb's designs are grimly northern, but Sibelius rather than Grieg, solid marble blocks, and the inner rooms slightly out of horizontal – everything as cold as the behaviour of their inhabitants in Paul Unwin's compelling production. (But Aline, with no servants, could produce a tremendous bank of flowers in her sitting-room.)

A crowd of spectators appears unexpectedly on the stage and in the stalls to see Solness fall from the scaffolding beyond the circle.

Their reaction to the master builder's death is very restrained.

B.A. Young

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Monday November 20 1989

The EC's new stature

WITH THE summit meeting of the Twelve on Saturday evening, the European Community has taken on a new political stature as an actor on the world stage. The support which the heads of government have agreed to give to political reform in eastern Europe can only reinforce the Community's role in any future political dialogue with the east.

The superpower summit at the end of next week will also put the torrent of change in eastern Europe high on its agenda; but this weekend marks a turning-point at which the EC begins to assert its leading responsibilities towards eastern Europe.

It seems clear that the meeting achieved a remarkable harmony in framing the broadly-based terms of the Twelve's support for reform in eastern Europe. The economic conditions for unlocking substantial financial help from the European Community for eastern European countries must be negotiated with the International Monetary Fund; but the political conditions for EC support will be democracy, human rights and free and secret elections. The harmony of the meeting was not the least of its achievements.

The discussion on Saturday was strictly confined to eastern Europe: the question of EMU and the Delors Plan remains on the agenda for the scheduled Community Summit in Strasbourg in December.

Ultra-sensitive

By common accord, the 12 leaders carefully avoided discussion of the ultra-sensitive question of German re-unification, or any other issue which might raise uncertainties over the future of the Warsaw Pact.

The Strasbourg Summit therefore retains all its importance as a major moment of decision for the internal development of the Community. Mrs Thatcher's opposition to the Delors Plan remains undiminished; and Chancellor Kohl may yet, for reasons of domestic electoral politics, seek a delay in the staging of an Inter-Governmental Conference on EMU. But at least these uncertainties have not prevented the Community from adopting an impressively statesman-like posture towards eastern Europe.

The Summit's distinction between economic negotiations with the IMF, and political conditionality in western Europe, has a double virtue. The IMF is not merely the international body with by far the most experience in negotiating financial help for economic recovery programmes; by its comparatively technocratic function, it can free the EC governments from the invidious risks of making the wrong political judgments about the economic strains and dangers facing the emerging democracies in Eastern Europe.

IMF approval

Moreover, IMF approval is a recognised international bench-mark for financial assistance from all countries, not just those of the Community. It is therefore essential for securing a convergent judgement from Washington as well as from the EC on the economic conditions which will enable the necessary financial help to flow to those Eastern European countries which also satisfy the Community's political conditions.

Differences remain over the French proposal that the Community should sponsor the establishment of a special development bank for eastern Europe. But this is a minor technical issue compared with the general consensus that the West should urgently channel economic help to those east European countries which satisfy the essential political conditions. The growing importance of the Community's political role in the articulation of western policy towards the Soviet Union and eastern Europe, has been underscored by reports that the US would like more formal links with EC institutions in Brussels.

Traditionally, western consultation and co-ordination has taken place inside the Atlantic Alliance; and it is to Nato that President Bush will no doubt report on his summit meeting with President Gorbachev. But with the détente of the Gorbachev era, the centre of gravity of Western policy towards the East naturally shifts from the military to the civilian sphere. Now, for the first time, the Community seems to be grasping its political responsibilities.

Retreat from intervention

THE NEWS that the Pentagon is considering axing funds for Sematech, the prestige US research consortium in semiconductor technology, is hardly surprising when federal spending generally is under pressure. However, more is involved than budgetary exigencies. The Bush Administration also appears distinctly unenthusiastic about the principle of getting into the industrial strategy business.

Mr Donald Atwood, the deputy Defence Secretary, has emphasised that the technologies of the future should be selected by the market, not by government. Similar stress has been put on more pro-competitive policies by senior officials at the Treasury and Commerce Department and – in the context of mergers – at the Justice Department.

Even if Sematech survives – and the verdict may well lie with Congress – federal support for industrial initiatives such as the proposed High Definition Television consortium, now looks much less likely. It is in any case doubtful that such programmes could succeed in equipping US electronics companies to fight back effectively against Japanese competition.

Even companies participating in Sematech think the Pentagon's involvement has reduced the scheme's commercial usefulness. US banks are deeply reluctant to fund it – ironically, much of the private finance for it has come from Japan. Above all, subsidised collaboration cannot on its own solve the competitive problems of the US electronics industry.

Escalating demands

None the less, such programmes might serve to reduce the head of steam behind protectionism. If Sematech collapsed, there is a risk that the industries involved would seek to defend themselves by escalating demands for trade measures against Japan. The Bush Administration needs to ensure that its more pro-competitive stance towards domestic producers is matched by a determination to keep the US market open to international competition.

The recent turn of events in the US also raise questions for the European Community, which is poised to fund its own response to Japanese microchip competition, the Joint European Semiconductor Silicon initiative (Jessi). Jessi is even more ambitious than Sematech, on which it was partly modelled, and is open to many of the same doubts about its practical value. These are compounded by two further factors.

One is that the poor performance of Europe's chipmakers stems less from weak technology push than from inadequate demand pull. Unlike their US and Japanese rivals, they depend heavily on sales to one regional market, and a sluggish one at that. Not only is Europe's microchip usage low by international standards, but much of the demand comes from government monopoly sectors such as telecommunications and defence. These offer chip-makers less stimulus for commercial innovation and efficiency than do high-growth, competitive, businesses such as computing and consumer electronics.

Contradictory policies

The second problem is contradictory EC policies. Not only is Brussels considering a US-style floor price arrangement for Japanese chips, which would be likely to bolster Japanese suppliers' profit margins at the expense of European chip users. It is also compelling Japanese chipmakers to boost production in the Community by changing its rules of origin for semiconductors.

This is bound to increase, not reduce, the commercial pressures on the European semiconductor companies. That may be no bad thing. But it is inconsistent with Jessi's aim of creating a privileged European club. As the Japanese deepen their EC manufacturing investments, the rationale for excluding them from Jessi will also become more moot. But if they are admitted, what will Jessi's purpose be?

The shift in Washington attitudes should prompt Europe to think again. Unless its efforts at technological renewal tackle the structural problems of European markets, Jessi-type initiatives risk being little more than costly distractions from the real issues.

Quentin Peel reports on the radical new plan to reform the Soviet economy

The battle lines are drawn

For three days last week, while the eyes of the world were glued on the unfolding drama in East Germany, more than 1,400 of the best brains in the Soviet Union were gathered, instead in awestruck contemplation of their country's domestic plight.

Their distraction was encapsulated by Dr Leonid Abalkin, the deputy prime minister in charge of economic reform, and chief orchestrator of the occasion. "I think we are rather more worried about what is happening in Vorkuta (where the coal miners are on strike) than in the GDR," he told a bemused Western correspondent.

It was a reply which said much about the transformation in Soviet priorities after more than four years of perestroika. The problems at home, above all of the crumbling Soviet economy, but also the rediscovery of democratic debate, the crisis in ethnic relations, industrial strife, resentment at basic living conditions and the polluted environment, have pushed even the reopening of the Berlin Wall way down the political agenda.

The meeting in the imposing Hall of Columns of the trade union headquarters, under the inevitable glowering bust of Vladimir Lenin, was far more, however, than just another exercise in collective hand-wringing. For it saw the presentation, by Dr Abalkin, of the most radical document on the future of Soviet economic reform yet to emerge. On this occasion, it was clearly coming out with Mr Mikhail Gorbachev's blessing.

For the first time since Mr Gorbachev came to power as Communist Party leader in 1985, an attempt has been made to spell out in coherent form where perestroika is supposed to be taking the Soviet economy, and how it is going to get there.

It still begs a host of sensitive ideological questions, but the basic framework is there. Perestroika, Dr Abalkin all but declared, means something which sounds very like social democracy. It requires the denationalisation of state property, and an all-out drive to create a market system, including at its heart a financial market, and inevitably, a labour market.

Socialism, it would appear, will remain in the prevention of the "exploitation of man by man." That means state intervention to prevent the worst inequities of the market, a system of property relations which somehow fudges the final question of private property, while allowing such variants as "leasehold in perpetuity," and the creation of a comprehensive social security system.

In the end, the debate was both disappointing, and divisive. Little new emerged in terms of practical proposals from more than 700 economists, 500 factory and farm managers, and selected "members of the public." But the battle lines were clearly drawn.

As one factory worker put it bluntly in a workshop on the future of a planned economy: "We began to go wrong in the Soviet Union with Khrushchev, when we started to introduce elements of capitalism into communism. The two systems cannot mix. We must go back to the 1950s." His statement reflected the gut reaction of many in the audience.

Dr Abalkin emerged from the meeting shocked at the extent of the conservative onslaught on his plans. He expected radical criticism from his colleagues for being too cautious. In the event, the overwhelming tenor of the debate was "powerful pressure from the conservatives."

Yet Dr Abalkin was being disingenuous, for there is no doubt that his programme is far more radical in conception than conservative. His compromise is in its gradual phasing, not in its ultimate ambitions.

The Abalkin programme includes eight broad steps:

- denationalisation of property;
- financial overhaul through a unified tax system, use of credit leverage through the banking system, and drastic stabilisation of the money supply;
- an active structural policy to boost the consumer sector, export growth and cut wastage of natural resources;
- the gradual creation of a market, with output produced in excess of state orders to be sold at free prices;
- gradual rapprochement between controlled state prices, and free prices, and adjustment to world market levels;
- the creation of a financial market, stock exchanges, and a state-controlled trade in securities;
- intensive development of foreign economic ties;
- development of a currency market through auctions and regular trade, to introduce partial convertibility of the rouble.

There is little room for doubt about how Dr Abalkin himself sees this programme. "The diversity of the forms of property, their equality and competition, is the fundamental condition for the economic freedom of citizens which ensures the best possible utilisation of their abilities," he says.

He calls for the "consistent denationalisation of property" leading to forms including leaseholding, joint-stock societies, co-operatives, and personal property (based on self-employment). In agriculture, he insists, "it is necessary to give every support to family farms, small-scale agricultural co-operatives, giving people plots of land for leasing . . . Intensive work on closing down hopelessly unprofitable state and collective farms should be done."

Such words must be anathema to traditionalists, including such powerful figures as Mr Yegor Ligachev, Mr Gorbachev's most powerful rival in the Politburo. But Dr Abalkin goes further: "We must give up the dogmatic misconception that income from property is incompatible with socialism," his programme declares. Income from property "in its socialist form" ranges from interest rates on bank savings and bonds, dividends and profits, to insurance, pension and investment funds. The state simply regulates "to prevent a socially-unacceptable growth of incomes."

'We have become convinced . . . that there is no worthy alternative to the market mechanism'

Nor is there anything wrong with growing inequality of incomes. "The total income of an individual worker made up by his wages, his share of profit, income from shares and securities, such as dividends, interest rates and the like, is to be regulated by tax alone, and should not have an upper limit."

As for the creation of a market, "we have become convinced on the basis of our own experience that there is no worthy alternative to the market mechanism as the method of co-ordinating the activities and interests of economic subjects. It is also the most democratic form of regulating economic activity . . .

"The financial market is the most important component of the market mechanism. It ensures mobility of public resources and their prompt transference to the spheres where their use is most effective . . .

"It is necessary to admit the existence of the labour market under socialism . . . The desire to regulate by fiat the movement of labour resources, and the level and degree of differentiation of incomes, only led to the curtailment of personal freedoms and . . . deprived people of the opportunity to choose the sphere where they can best apply their abilities."

It all reads like a manifesto for social democracy. Is it really the likely future of the world's first Communist state? And how on earth does Dr Abalkin, let alone Mr Gorbachev, propose to get there?

It is less than 18 months ago that Dr Abalkin spoke at the Communist Party conference, and clashed sharply with the Soviet leader. He uttered two heresies. First, he said that perestroika so far had failed even to begin a real process of structural change. And second, he dared to contemplate the possibility of multi-party democracy as a necessary extension of the democratisation of Soviet society.

It says something about the way Mr Gorbachev operates that after that public argument, he has proceeded to promote Dr Abalkin to the most important co-ordinating role for the economic reform programme.

His first heresy is now accepted doctrine: "The past four years of strenuous efforts have not led to any of the projected results," his programme says. "Far from improving, the situation continues to deteriorate. People are increasingly alarmed, and extremists on the right and on the left are ready to use this alarm to their advantage."

Dr Abalkin is also adamant that political democratisation and economic reform are inextricably linked, each as a precondition of the other. But he has gone very quiet on any suggestion of multi-party democracy: he seems to have accepted that the time is simply not ripe for it.

He is the first true member of the intelligentsia (a Russian concept in itself) in the government, and it shows. It also makes him a thoroughly unpopular figure to many Soviet citizens, seeing all their old certainties in turmoil, with nothing to show for it in their lives or shops.

"The complexity of the situation leads to a belief in miracles," he said after the conference. "Everybody is waiting, believing that somehow everything will turn for the better immediately. I have seen it quite a few times in our history: each time, when there was hope, flying saucers become the main topic of the day. Miracle healers become the centre of conversation." He was describing exactly the situation in the Soviet Union today – with a string of psycho-healers dominating the television airwaves, and little green men spotted from Voronezh to Volgograd.

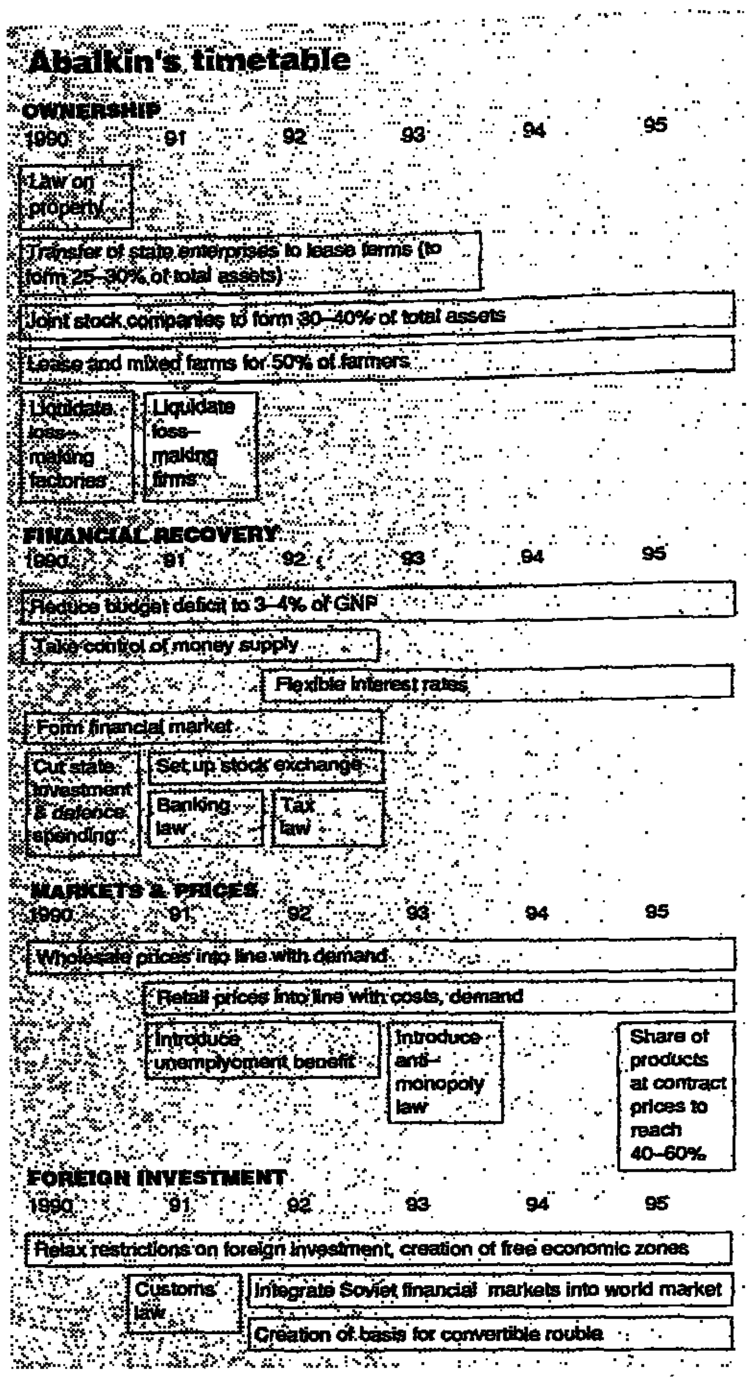
"People say we tried building socialism. They want now somebody to come and explain everything – somebody extremely smart. "We don't believe in our own brains. That is the situation we have. How can we make the public believe, to wait, to trust?"

It was a desperate appeal from a man who recognises the full extent of the Soviet plight. He went on to give himself no more than a year: one year to stop the decline in the economy, and show, at least in a handful of key sectors, that the reforms can begin to work. For in one year's time Mr Gorbachev has summoned the next Communist Party congress, and if he has nothing to offer by then, Dr Abalkin is convinced that the conservatives will win the day.

The conference may have been a disaster as far as creating a consensus was concerned. From another point of view, it was classic Gorbachev tactics. There is now on the table, in the centre of the debate, a document which takes the whole process a huge step further down the reform road. Dr Abalkin was perfectly honest about the tactics. "The first thing is to make the conservatives fight with the radicals. And meanwhile we will get on with our business."

Now it is up to next month's Congress of People's Deputies – the nation's directly elected, 2,250-strong, unwieldy and unpredictable super-parliament. If they can be persuaded to accept the broad strategy, then from now on Dr Abalkin and his colleagues can block piecemeal conservative panic measures – like the reimposition of price controls.

But the sheer size of the task in hand, even if it is approved, is daunting. Western economists do not have the experience to help. "Western economists know how to manage a market economy," said Dr Ed Hewitt, a leading US specialist in the Soviet economy, after the first day of debate. "They don't know how to create them from scratch. That is what they are trying to do here."



At least the trains run

■ British Rail has clearly built some flexibility into its week-end time-tables. The 10 am from King's Cross to Aberdeen on Saturday arrived at Newcastle – en route – nearly 20 minutes early. The 18.07 from Newcastle to King's Cross in the evening arrived only 20 minutes late, despite being delayed for 20 minutes in York and nearly half an hour in Peterborough to allow engineers to get on with line maintenance work.

The BR staff were unfailingly courteous to passengers throughout, even when they had to explain why there was sometimes no buffet car. They also gave a tip to first class travellers. Never buy a first class ticket on Saturdays. Buy second class and go to the first class coaches marked "Weekend". In small print there is a notice saying that passengers with a valid second class ticket may sit there if they pay a surcharge of £3. If you are travelling from London to Aberdeen, a journey that still takes takes 7½ hours, that is a pretty small amount for travelling more comfortably.

The explanation seems to be that BR is so short of rolling stock that it has to get its first class carriages back to the main stations ready for the start of the week somehow. So it sticks them on the Saturday trains.

To add a purely anecdotal comment: passengers no longer seem angry about Inter City train services; they are amazed that they manage to run at all. That may illustrate why it is so hard to find a new chairman for BR.

Gate crasher

■ Although Mrs Thatcher praised President Mitterrand's efficient organisation of Saturday's dinner discussions of the Community heads of government, not everything went exactly according to plan. Not being a Prime Minister, Douglas Hurd, the new British Foreign Secretary, had to get out of his car outside the Elysee Palace, walk across the courtyard and watch the Prime Minister arrive in her Rolls-Royce from behind the serried ranks of the TV cameramen.

Poul Schluter, the Danish Prime Minister, was even more unfortunate. His driver rammed the beautiful wrought iron gates of the Presidential palace.

OBSERVER

"Has the PM infringed our sovereignty by actually agreeing with someone?"

Tory secrets

■ The two main stories featured on the cover of the December issue of Marxism Today – the intellectual Tatler of the British left – are Shere Hite on Men, Women and Sex, and John Biffen on The Troubled Tories.

Warburg's way

■ Paul Walton is about to jump a culture gap. An equity market strategist – one of the people who advise investors on the structure of their portfolios – he has left the refined halls of Warburg for Smith New Court. His first impression of his new home: "I was surprised at the level of enthusiasm I found."

Walton's is not the first departure from Warburg in recent months, though this does not appear to signal discontent. "They're a victim of another firm which recently recruited a senior Warburg man, paying tribute to that house's strong position in the post-Big Bang world.

More important, perhaps, is the signal Walton's move sends about the ambitions of Smith, which has never employed an animal like him before. His brand of research, which he describes as "top down", is not the nitty-gritty variety Smith's traders have needed in the past. Still, Smith has been busy changing itself in the past 18 months, building broking and corporate operations alongside its renowned trading arm.

Walton says a major reason for moving is "the clear benefit in Smith's independent position", free of the pressures of integrated houses: like Warburg, for example. That seems a touch ironic, given the way Smith is moving – although it has a long way to go before it gets there.

Only the Irish

■ Story about Jack Charlton, the very successful (English) manager of the Irish football team, which has reached the finals of the World Cup. Charlton was on holiday in Africa and came upon a village match where there was one player who – in footballers' parlance – was really sticking them in. He turned out to be called Umbongo Murphy.

Charlton cleared matters with the international authorities and had him qualified to play for Ireland. In the final training session, Charlton gives the lads a pep-talk. He picks up a round object and says very slowly: "This is a football. And that," pointing to one end of the ground, "is a goal."

"Hold on," says Umbongo, "that's a bit unfair. I speak perfect English." "I know," Charlton replies: "I was talking to Aldridge."

Nalt after Salt

■ The Americans are bracing themselves for surprises, even stunts, ahead of the meeting between Presidents Bush and Gorbachev off Malta next month.

One proposal that high level US sources say that Gorbachev might come up with is to turn the Mediterranean into a military free zone – a kind of naval arms limitation pact or Nalt to go alongside Salt, the strategic arms limitations treaty between the superpowers on long range nuclear weapons.

The proposal could wrong-foot a lot of people because the general expectation is for talks on limiting land forces. It would also fit the place – the Presidents, after all, are meeting in ships in the Mediterranean. And it would be immensely pleasing to Malta, whose Government has frequently argued for such a policy in the Conference on Security and Co-operation in Europe. The Americans are thinking hard.

Newspeak

■ From the interim report to shareholders of Aran Energy plc: "Against this positive background the Group's trading results in the half-year have nonetheless disimproved."

In the second half, perhaps they will unworsen.

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The Prince of Wales writes about the values of good 'corporate citizenship'

Future of business in Britain

It is not without hesitation that I accepted this invitation from the Financial Times to outline my vision for the future of business in the United Kingdom. It could be said that here is yet another spectator adding his voice from the sidelines whilst others actually play the competitive game on the international business field. But the more time I have spent with top business leaders and new entrepreneurs in this country and abroad, and when I meet ordinary people who care about the future of their families and their communities, the more I realise how the long-term success of business is crucial to all our futures.

Four years ago I accepted the Presidency of Business in the Community which was, even then, an immensely important, yet less publicly known voice of a small but growing group of companies. Each was committed to working in partnership with the public sector and local communities to improve the economic prospects of the community in which they are based.

Business in the Community now has a membership of over 400 of the country's leading businesses, together with representatives from central and local government, the voluntary sector and trades unions. The idea of business involvement in the community is now firmly on the national agenda. However, there is more to be done to convince the business leaders ot today and those who will succeed them that being active in the community contributes to business success.

This work has not only given me an additional insight into the extraordinary drive and talent in the business world. It has also provided me with an opportunity to meet business executives on their own ground who believe they have a responsibility as good "corporate citizens" to reinvest in local communities, in addition to the wealth they generate and the taxes they pay.

These encounters with business leaders, both at home and at overseas trade events, all seem to underline two ideas as being central to the future of business in this country. First is the need, above almost anything else, for business to take a long-term view and, secondly, for the concept of quality in all its many facets to be uppermost in our minds.

It is, of course, fashionable at times of stock-market shifts and major take-overs to argue that an influential number of people to whom we have entrusted investment decisions in industry and commerce take too short a view compared with some of their international counterparts. But whatever one's view of these arguments, it is clear to me that shareholders' long-term interests are best served by building stability for long-term investment in innovation and human skills.

Thinking long-term is a whole approach which should encompass every aspect of business behaviour in Britain. Equally, it should become part of the ethos of managers of tomorrow and those in City institutions who so influence the time-scale for business decisions. Such long term thinking has many facets.

The most obvious challenge which we face in the 1990s is to give far greater backing for innovation. Through meeting some of the hundreds of inventors associated with The Prince of Wales Awards for Innovation and Production since 1980, it has become very clear to me that much more can and must be done to assist the commercial exploitation of inventive talent *for the long-term* development of British industry.

Similarly, long-term action also requires finance for innovation and the imaginative linking of inventors to companies, or to the national network of enterprise agencies. I was delighted to announce recently the establishment of a seed capital fund based in Halifax, West Yorkshire, which is focused on second stage financing for businesses originally funded by the Prince's Youth Business Trust. The capital for the fund was provided under arrangement by The Carroll Foundation and it will be managed by Hambros Advanced Technology Trust on a "pro bono" basis. I hope others in the investment world will observe and perhaps follow, this example of how organisations in the private sector can assist young people in turning their ambitions into reality.

As we have a smaller small-firms sector than many of our international competitors, I also hope that more will follow the lead of companies such as Marks and Spencer and Nissan in developing really imaginative local sourcing policies. I hope that in 1990 the efforts being made by John Neill of the Unipart Group, in leading a Business in the Community team to promote more local purchasing, will attract considerable support from other chief executives.

Long-term thinking demands a more widespread commitment to training, but equally it requires greater imagination in working in partnership with local communities to bring into the labour force many who are left out due to disadvantage or prejudice. I have been enormously impressed through my visits to inner city projects such as Fullemploy and local Job Link schemes to see how major employers such as Dixons, Grand Metropolitan and the Bank of England are targeting recruitment and customised training at the longer-term unemployed in our cities.

Prince Charles inaugurates a self-help building project in east London

This longer-term thinking should apply to the whole area of relations between business and the community. Companies will benefit in the long-term from being active in the local community by working in partnership to improve educational standards, the economic prospects of inner cities, and through contributing to making towns and cities more safe, healthy and enterprising. Companies must equally take great care to conserve our natural resources and protect the environment, whether in the immediate locality of offices and factories or in their operations overseas. This may all seem like a tall order when many businessmen probably feel that they have enough to do running their companies and satisfying shareholders, but those who have the courage and vision to take the longer-term view will reap the rewards in the end. A considerable number of the businessmen I have met and who have since become involved in this form of community partnership were initially pretty sceptical about the idea until they risked dipping their toe into the water.

My second theme of quality is an equally important and broad challenge for business in the 1990s. I have been fortunate to meet some of the country's leading designers and companies who invest in excellence. Much more could be done to ensure a future for our designers. Design Works in Gateshead is an excellent example of a partnership between the Burton Group and the public sector in creating new enterprise opportunities for designers by converting an old warehouse into exhibition and workshop space. I also feel there is a need to educate young people and consumers about quality design, and therefore welcome the National Curriculum Council's encouragement of design and technology for all young people in our schools.

Another aspect of quality is the leadership and vision of management. An enormous amount has been achieved in helping younger people to have a more positive view of the value of industry. I have encouraged many executives to join me in visits to schools, enterprise agencies and community projects around the country. I know only too well that seeing things at first hand and being personally involved develops leadership skills and brings new insights into the society on which employers depend.

I have also seen the impact on the human spirit that the quality of the built environment has and how the scale of developments either promotes a sense of community or fosters alienation. Business and the public sector dominate this aspect of our lives. In the 1990s, through looking at practical examples of what makes communities work, I hope that we can aspire to greater quality in the planning of towns and cities, the design of buildings and the mixture of their uses.

My President's Committee of Business in the Community recently produced some guidelines published this week on Companies in the Community which addresses how these issues of quality and the long-term can be approached by business in a practical way — not as an act of philanthropy, but as part of everyday successful business practice.

In my view, this approach is as relevant in an international context as a purely British one. With the globalisation of business, and the challenge of difficult but potentially rewarding overseas markets, the need to forge links with local communities will become increasingly important in order to develop long term commercial relationships. While in Indonesia recently I was able to highlight an interesting example of this by opening an ingeniously appropriate and small scale water purification plan that Dale Electric (in partnership with the British soft loan programme) was installing for the inhabitants of a slum area of Jakarta. In the same way countries like Indonesia are acutely aware of the need to protect their environment. Foreign companies which set high environmental, as well as product, standards are particularly welcomed.

It is because of these challenges for the years ahead, and because I feel so strongly that the vision of business sets the tone for how well communities work, that I am proud to have accepted an invitation to remain for a further term as President of Business in the Community. I feel that it is a challenge to all of us to make sure that not only the current leaders of British industry address these important issues, as many are already doing, but that the managers and business leaders of tomorrow see how their own personal vision of business will influence the future of our children and our communities.

LOMBARD

Cutting costs at ECGD

By Peter Montagnon

IT IS NOW VIRTUALLY a foregone conclusion that the Government will shortly decide to spin off the profitable short-term insurance division of the Export Credits Guarantee Department into a separate company as a result of the Kemp Report into the department's future. It should take a careful look at the international arena, however, before taking any radical decisions about ECGD's loss-making project division.

By raising some perfectly valid reasons for allowing the short-term insurance division to go its own way, the Kemp report has stirred up a hornets' nest over long-term export credit support which has involved the Government in some £6bn of sovereign debt reschedulings since 1982.

At the heart of the debate is the question of whether it makes any economic or commercial sense to subsidise exports of capital goods to countries that cannot afford to pay for them. The blithe insouciance with which guarantees were extended to developing countries in the run-up to the debt crisis has saddled ECGD with a pile of bad debts. At the last published count it had an accumulated deficit of £282m, loss provisions of £2.3bn on total sovereign exposure of £10.4bn, and borrowings from the Government's consolidated fund of £1.16bn.

Even its supporters cannot deny that this adds up to a prohibitive price for a service which now involves guaranteeing only about £1bn of capital goods exports a year. It is easy to make out a case, as Treasury officials have in discussions on the Kemp Report, for closing down the project division altogether.

Such an argument ignores, however, the longer term record of the ECGD which has been in surplus for much of its 70-year life. To close it down on the basis of a few years', albeit disastrous, trading results would deprive British industry of a tool it needs to retain a presence in Third World markets, which, sooner or later, should again become commercially attractive. All other leading industrial countries offer their exporters this kind of support. Without it British companies would be labouring at a disadvantage.

Yet, if unilateral disarmament is not an option, the parlous state of ECGD's finances cannot be ignored.

A first task is to clarify ECGD's mandate which calls on it both to support British exports and to break even over time. The obligation to support exports, even in circumstances where the private insurance market will not, inevitably means a risk of loss. ECGD should not therefore necessarily be required to break even, and its current losses should be seen in the context of a good historical record. What the Government must do is find ways of ensuring that they are not repeated.

The best hope lies in seeking to introduce more sensible competition in the international export credit market. Here two changes would help.

First, the Government should seek greater freedom of commercial manoeuvre for the ECGD so that it can be more than just an insurer of last resort. This could entail, for example, international agreement to lift maturity limits on officially guaranteed loans to countries which are no longer eligible for interest rate subsidies. Freedom to offer long maturities in these markets would help ECGD compete with the private sector in developing a diversified risk portfolio which is essential to the health of any large insurance concern.

Second and more important, the Government should insist in talks with its trading partners that official export credit agencies be required to produce transparent accounts which show the losses they have incurred.

No leading agency is currently subject to such stringent accounting requirements as ECGD. If all were, their governments would be forced to acknowledge publicly the cost of the support they are providing. Competition for business in risky markets would abate as taxpayers came to see the losses incurred by their export credit agencies for what they really are: a particularly wasteful form of development aid.

LETTERS

No quick fix on quality

From Mr Douglas Macbeth.

Sir, Christopher Lorenz reports suggestions that quality is no longer a weapon to win in global manufacturing markets (November 13).

Such views might mislead UK managers as they struggle to compete against global players taking their lead from Japan. The point insufficiently emphasised is that until all players in the market are equal in quality terms, quality will remain a competitive weapon.

Once parity is reached, the focus shifts. The evidence suggests that it is moving (in the aggressive Japanese companies) towards speed of response to markets and flexibility towards customer demand. This is not to say that the Japanese have "solved the quality problem" and are moving on — that suggests the traditional Western "quick fix" approach, not supported by best-practice companies.

Manufacturing now needs a more interdependent, systemic approach: we must continuously improve on our earlier efforts, particularly in quality. Thus we first get quality right, then manage delivery reliability, response and flexibility in order to secure cost reductions and form a sound framework for innovative new products.

Douglas Macbeth,
Glasgow Business School,
University of Glasgow

Share dealing costs

From Mr D.A. Stevens.

Sir, I take issue with the assertion that "to date, small shareholders have been subsidised" (Richard Waters' article on paperless deals, November 9). This is only partly true; it fails to distinguish between those who hold shares and those who deal in them. The former costs very little in relation to the latter, and it is the efficacy and cost of dealing which Taurus is intended to improve.

In spite of the increase in numbers of small shareholders, brought about by privatisations, most private shareholders hold small numbers of shares in a handful of companies, and deal very infrequently.

There is no evidence that the shareholding habit is extending to acquiring a wider portfolio of shares or in active trading: most public company registers have seen no reversal of the decline in the number of private investors during the previous decade, and their registrars are more likely to find that a private holding is altered by a change of address or a grant of probate than by a Talisman transfer.

Taurus will not benefit such shareholders, and they will see no good reason to pay a fee to a Taurus account controller (TAC) to hold their investments for them. Indeed, the small shareholder already feels that the cost of dealing is a discouragement: if a TAC fee is added to this, he or she may simply leave the field.

Taurus is an extremely ambitious project, albeit a necessary one if London is to continue as an important securities market. The present indications of cost are very large indeed. If these costs fall on listed companies there will be a diminution of profit at the expense of all shareholders — whereas they ought to be borne primarily by those who deal. On the other hand, if dealing costs are increased, small shareholders will feel more locked-in than they do already.

If Taurus is a good idea, it must presumably bring benefits in efficiency or cost. But to whom? The securities industry would like listed companies to think that the benefit will lie in cheaper share registration — but the registrars cannot see how. Brokers and market-makers will also benefit from streamlined procedures, and should therefore absorb some of the cost. The cost/benefit analysis must be perceived much more clearly if the Taurus project is to command the general support necessary. Meanwhile Aunt Agatha (or her nephew Sid) seems to be on a hiding to nothing.

D.A. Stevens,
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18 Hanover Square, W1

London's roads

From Mr Peter Witt.

Sir, Michael Prowse's article on London's transport problems ("Sardines want change," November 14) is fine so far as it goes. But it deals only with the central area, completely overlooking the rest of the capital, where 80 per cent of London's working population is employed.

Public transport already carries 83 per cent of those working in central London. For the rest of working Londoners, because of the diversity of their journeys, public transport does not and never can cope with anything but a small proportion of journeys to work. We can clearly see — to quote Transport in London — that "Road transport both public and private is the dominant mode for orbital and local passenger journeys."

It is also the only practical method of delivering the goods and services on which London and Londoners rely. (Congestion is adding 1p a pint to Londoners' milk.)

It is a common misconception that France and Germany are investing only in public transport. In fact they are both investing far greater amounts in roads because, as in Britain, road traffic dominates.

Peter J. Witt,
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Electrical balance of power

From Mr Christopher Johnson

Sir, Two years ago, at the FT world electricity conference, I said: "Separate the nuclear power industry and keep it under state control for the time being. The costs of fuel reprocessing, waste storage and disposable, and decommissioning of old stations, are a millstone round the nuclear power industry's neck.

"The Central Electricity Generating Board's accumulated provisions for this purpose already amount to £2.6bn, . . . and it is hard to predict how much more will have to be provided . . . If the nuclear power stations are to be privatised, the Government might have to accept some continuing financial responsibility for cleaning up the mess they leave behind them; this would largely destroy the point of privatisation. The best way of introducing competition would be to split up the conventional generating side of the CEGB into a number of units, on a regional basis, and possibly also by fuel."

If it was obvious two years ago — to a lay economist with no special nuclear expertise — that the nuclear stations would have to stay in state ownership, why has it taken two years for the Department of Energy and its advisers to reach the same conclusion?

I hope it does not take another two years to make the obvious decision — consequent upon the first — that the CEGB must be split not into two but into five or six competing units. This is the only way of achieving a rough balance of bargaining power between the generating companies and the 12 distribution companies.

Christopher Johnson,
Lloyds Bank,
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'Misbegotten hybrid'

From Mr Ralph Instone.

Sir, Divergent views (Letters, October 31, November 8) on the effect of the last-minute Government amendments to the Companies Bill demonstrate the unwisdom of the Department of Trade and Industry (DTI) in pushing through a fundamental change in company law without adequate consultation. But there are other serious objections to these amendments.

First, what is a "general commercial company"? Does it include, for instance, one which owns a sports club or a nursing home? The phrase — unknown in ordinary English — creates a grey area in which it will be impossible to say with any confidence whether the new law or the old is applicable.

Second, the new "incidental or conducive" test is plainly objective. But political contributions, which have hitherto been regarded as *intra vires* (and are recognised in the 1985 Act), will fail the test where the business of the donor company is not under a specific threat or some kind. The DTI seems not to have realised that its new test is far more restrictive than that hitherto applied by case-law, which is related to a company's stated objects and not to its actual business.

The logic of the DTI's approach requires that a company's objects should not appear in its memorandum but in its articles, as a matter of internal concern only, and that in dealing with outsiders its power should be unlimited. I hope that the present misbegotten hybrid will have only a short statutory life, while the topic is reconsidered.

Ralph Instone,
7 New Square,
Lincoln's Inn, WC2

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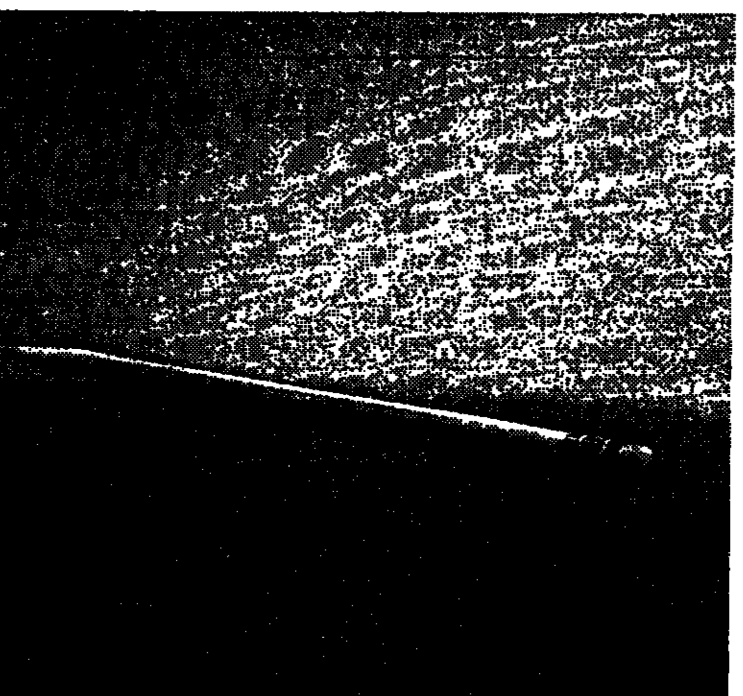

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Janet Bush
on Wall Street

Momentous times for TLC chief

THE DAY the news broke that TLC Beatrice International Holdings was planning to sell a 35 per cent stake to the public was momentous for Mr Reginald Lewis, TLC's chairman and chief executive officer, in more ways than one.

November 7 was the day Virginia elected Mr Douglas Wilder the first black governor in the nation's history and New York elected Mr David Dinkins, a long-time friend of Mr Lewis, as its first African-American Mayor.

Although Mr Lewis would prefer to be known as a takeover specialist rather than the most successful black businessman in the US, these momentous events cannot have been lost on him.

His TLC Group became the largest black-owned business in the US in August 1987, when he agreed to buy Beatrice International from its parent company in the largest ever leveraged buy-out of an overseas operation.

He went to see Mr Michael Milken, Drexel Burnham Lambert's head of junk bonds, and put together his winning bid of $985m, largely financed by Drexel junk bonds, for this far-flung collection of 64 companies in 31 countries.

Since then, TLC Beatrice has sold off substantial chunks of the original business and now does business through 15 operating companies concentrated in wholesale and retail food distribution, primarily around Paris, France. It is also a manufacturer and marketer of ice cream, processed snacks and other grocery products throughout Europe. Strangely for an American-owned company, TLC Beatrice has almost no business in the US.

The dramatic story – so far – about this company is not its business. Tropicana orange juice is a household name but the same could not be said for Pete's Extra-Large peanuts.

Mr Lewis' spectacular achievement is to have succeeded where Revco, SCI Television, Campeau Corp and many others failed. All went the highly-leveraged route and met with disaster.

The sale of a stake in TLC Beatrice to the public is testament to what leverage has done for Mr Lewis and is a turning point in his business career. The prospectus sums it up: "This offering completes the company's transition from a highly leveraged company to a substantially deleveraged company that can take advantage of market opportunities."

In the two years since Mr Lewis bought Beatrice International, he has paid off about 83 per cent of the acquisition debt assumed through a substantial programme of asset sales.

"We see leverage as a tool which can be used efficiently as part of a plan," said Mr Lewis. "Our plan to reduce debt and retain our core European business has fortunately worked. We have got the units we wanted to keep and we will now go forward with a more classic debt/equity ratio."

His first big deal was the 1984 purchase of McCall Pattern Company, a rather old-fashioned sewing patterns concern. He invested only $1m in cash and $24m in debt. In June 1987, he sold it to Britain's John Crowther for $95m in cash and assumed debt at the same time as keeping a 20 per cent interest in McCall.

Success such as this seldom comes without controversy. Shortly after John Crowther was taken over by Coloroll, McCall went bankrupt and, in September, Mr Lewis was slapped with a fraudulent conveyance suit by creditors of McCall.

The main charge of the complaint is that Mr Lewis and shareholders and directors of McCall were paid more than $60m for the transfer of control to John Crowther and that McCall received nothing other than an additional $35m in debt. The suit alleges that Mr Lewis personally made at least $63m in less than four years on his $1m initial investment.

Mr Lewis is contesting the suit. He attributes McCall's troubles to Coloroll's failure to support the business, noting that he left McCall in excellent condition (an assertion borne out by profits figures).

There is no doubt that the McCall episode set Mr Lewis up to buy Beatrice International. The subsequent road from leverage to a healthy balance sheet has been relatively smooth and Mr Lewis now has a solid business to develop.

Unlike many others who have distanced themselves from Mr Milken since his indictment on securities fraud, Mr Lewis remains fiercely loyal. "Mike Milken is truly one of the extraordinary men of this decade. He backed us 100 per cent when few on Wall Street would."

El Salvador fights back offensive by guerrillas

By Tim Coone in San Miguel, El Salvador

THE week-long guerrilla offensive in El Salvador began running out of steam over the weekend under sustained counter-attacks and bombardments by the armed forces.

Heavy fighting continued in the capital and the eastern city of San Miguel, as well as on the perimeter of several smaller towns around the country. In San Miguel, an A-37 Air Force jet was downed on Saturday as it strafed and bombed guerrilla positions.

Together with another jet, they dive-bombed, strafed and rocketed the working class suburb of Molino for 1½ hours. Many civilians have been trapped there for eight days and much of area is rubble.

At least four bombs were observed being dropped on the suburb and one man, who was immediately under the bombardment, said by telephone: "Please, you must help us to put a stop to this. We have run out of food and we cannot get out. No one has been able to bring food in."

Col Mauricio Vargas, commander of the Third Infantry Brigade based in San Miguel, said that three-quarters of the city's perimeter and suburbs had been controlled by the guerrillas but that this has been reduced to only a quarter.

"I could clear out the guerrillas in 10 minutes by flattening the area with bombs, but that would be sheer brutality," he said.


Salvador troops advance on rebel-held San Miguel bridge

The loss of the A-37 aircraft will be a blow to the air force, as would be, if true, the reported shooting-down of a helicopter over the capital. Aircraft loss to ground fire is proof that the guerrillas have effective anti-aircraft defence without resorting to surface-to-air missiles. Col Vargas said: "If SAMs were to appear here I think we would have no choice but to attack the source of supply, which would be Nicaragua."

● The Pope yesterday appealed for an end to El Salvador's fighting and for a negotiated solution to the conflict, describing last week's assassination of six Jesuit priests by a right-wing death squad as an "act of barbarity." Meanwhile, El Salvador's official top legal authority advised other liberal priests to leave the country for their own safety.

Pöhl gives qualified support to Thatcher's caution over EMS

By John Plender in London

QUALIFIED support for Mrs Margaret Thatcher's cautious approach to joining the exchange rate mechanism of the European Monetary System came yesterday from Mr Karl Otto Pöhl, president of the West German Bundesbank.

In view of Britain's high rate of inflation and its balance of payments deficit, it would be wrong for it to join the exchange rate mechanism "at this moment," he said.

Speaking on BBC television last night, Mr Pöhl indicated his agreement with the British pre-conditions for full participation in the EMS, which include full liberalisation of capital movements in the system and the completion of the single European market, as well as a reduction in Britain's rate of inflation.

However, having failed to opt for full membership two or three years ago, Britain was now less able to influence the Community's moves towards economic and monetary union, outlined in the Delors Report earlier this year, he said.

In the run-up to next month's European summit in Strasbourg, the Bundesbank president warned that no West German Government would accept the Delors report's proposal for a new European central banking system unless it was given safeguards at least equivalent to those enjoyed by the statutorily independent Bundesbank.

Mr Pöhl doubted whether other European governments were prepared to accept those conditions. The economies of the member states were too divergent to make a European central bank more than a distant prospect, he added.

But in an outspoken criticism of Mrs Thatcher, the Bundesbank president emphasised his fundamental disagreement with her vision of Europe. Mr Pöhl foresaw a federal future for the Community, with common policies on security, as well as monetary policy, within a wider political union. Mrs Thatcher's commitment to the nation state was, he suggested, an anachronism.

Mr Pöhl was also anxious to quash recent reports that he backed the British plan for competing currencies as a means of achieving monetary union. While he sympathised with the idea, because the D-Mark was a highly competitive currency, the Treasury's proposal could not be regarded as a realistic alternative to the Delors Report's approach.

Other Community countries such as France and Italy were dedicated to the notion of a European central bank precisely because they wished to topple the D-Mark from its pre-eminent position, he said.

He proposed a two-year waiting period to allow the EMS to be completed and for EMS members to gain experience of free capital movements, thereby establishing whether a consensus really existed for further integration.

UK legislative plans unveiled

By Philip Stephens, Political Editor, in London

THE British Government will unveil tomorrow its latest controversial legislative programme against the backdrop of renewed uncertainty on financial markets and little sign of a recovery in its popularity with the electorate.

The Queen's Speech opening the new session of Parliament will foreshadow about 20 bills. That will represent a considerable cut on the previous two sessions, but the contents of the programme – and the economic background – foreshadow another difficult year.

Details of much of the contentious legislation will be unveiled within a week or so of the start tomorrow of a new era of televised debate for Westminster's MPs following the State Opening.

A bill to reform the National Health Service by introducing an "internal market" in health care, by allowing general practitioners to operate their own budgets and by providing for "self-governing" hospitals, is likely to be published later this week.

Among other measures being given priority are the Department of Education's plan to freeze the level of grants and to introduce loans for students in higher education, and the Government's plans to liberalise the broadcasting industry.

Legislation to inject more competition into the provision of legal services – likely to raise considerable opposition from the House of Lords – should also be published before the Christmas recess.

The Government hopes that the £5bn ($7.9bn) increase in public spending announced in last week's Autumn Statement will take some of the sting out of opposition attacks on the programme.

It also anticipates that two bills in the latest programme – one to tighten regulations over food preparation and the other an umbrella "green bill" to combat pollution and improve waste disposal – will attract considerable public support.

Mr Christopher Patten, Environment Secretary, is said to be working on a compromise plan to defuse opposition to one of the more controversial proposals in the green bill – the break-up of the Nature Conservancy Council.

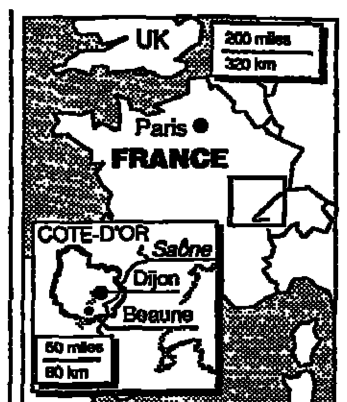
The forecasts in the Chancellor of the Exchequer's Autumn Statement for a sharp slowdown in the pace of growth and for only a modest fall in the inflation rate suggest that 1990 will be the worst year for the economy since the Government's first term of office.

City of London analysts believe that last month's trade figures – due to be published on Thursday – will need to show an improving trend if investors are to be persuaded to continue supporting the pound at current interest rate levels.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	s	18	64	Dubrovnik	s	16	61	Malta	r	21	70	Rhodes	s	16	61
Algiers	s	21	70	Edinburgh	c	8	46	Manchester	s	12	54	Rio de J'o	c	30	86
Amsterdam	s	7	45	Faro	r	13	55	Manila	c	32	90	Rome	f	16	61
Athens	c	12	54	Florence	f	10	50	Melbourne	f	15	59	Salzburg	f	8	46
Bahrain	s	26	79	Frankfurt	s	4	39	Mexico City	c	20	68	San Francisco	c	11	52
Bangkok	f	33	91	Funchal	c	18	64	Miami	f	20	68	Seoul	s	4	39
Barcelona	c	18	64	Geneva	c	4	39	Milan	c	6	43	Singapore	f	30	86
Beirut	-	-	-	Gibraltar	r	16	61	Montreal	f	-8	18	Stockholm	c	0	32
Belfast	c	10	50	Glasgow	c	9	48	Moscow	c	-4	25	Strasbourg	s	2	36
Belgrade	s	5	41	Guernsey	c	13	55	Munich	s	5	41	Sydney	c	19	66
Berlin	s	3	37	Helsinki	s	6	43	Nairobi	f	25	77	Taipei	c	18	64
Biarritz	f	19	66	H Kong	c	21	70	Naples	f	17	63	Tangier	r	15	59
Bombay	c	33	91	Innsbruck	s	10	50	Nassau	-	-	-	Tel Aviv	c	20	68
Bordeaux	f	15	59	Inverness	c	7	45	New Delhi	s	27	81	Tenerife	s	23	73
Brussels	s	12	54	Islamabad	c	23	73	New York	s	-1	30	Tokyo	s	15	59
Budapest	s	3	37	Istanbul	f	8	46	Nice	s	17	63	Toronto	c	-5	23
B. Aires	c	25	77	Jakarta	r	32	90	Nicosia	c	20	68	Tunis	c	20	68
Cairo	c	21	70	Jersey	f	13	55	Oporto	s	15	59	Valencia	f	16	61
Cape Town	s	22	72	Jo'burg	s	24	75	Oslo	c	3	37	Venice	c	8	46
Caracas	c	29	84	Lima	c	21	70	Paris	s	12	54	Vienna	s	3	37
Casablanca	f	22	72	Lisbon	f	15	59	Peking	s	7	45	Warsaw	c	-1	30
Chicago	c	-2	28	London	s	12	54	Prague	s	1	34	Washington	c	-1	30
Cologne	s	7	45	Los Angeles	c	17	63	Reykjavik	s	-7	19	Zurich	c	2	36
Copenhagen	s	8	46	Luxembourg	s	5	41								
Corfu	r	17	63	Madrid	r	11	52								
Dallas	-	-	-	Majorca	s	19	66								
Dublin	r	11	52	Malaga	r	16	61								

Readings at mid-day yesterday
C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder



Brisk bids for wines by light of the candle

By Edmund Penning-Rowsell in Beaune, France

AT the sale in Beaune of the Hospices's 1989 wines yesterday it was the whites, especially fine this year, that made sensational increases in prices compared with last year.

The auction is conducted by candle in Beaune's market hall against a backdrop of a fine 17th-Century tapestry and the sale of the new wines of the Hospices de Beaune provides the first public indication of the quality and the trend in prices of the latest Côte d'Or burgundy vintage.

As each lot is announced an almost needle-thin fragment of candle is lit. The lot is declared sold when the flame goes out. Successive bids are usually made just before the last flicker.

Seventy nine casks yesterday recorded a percentage increase of 96.6 per cent. The top prices were paid for the Corton-Charlemagne Cuvée, Francois de Salins at FFr300,000 ($48,000) per cask of 300 bottles, which was bought by the same purchaser who acquired the same Cuvée last year for FFr156,000.

The reds started very high with FFr80,000 for the Mazis-Chambertin Madeleine Collignon and FFr63,000 for the Pommard Dames de la Charité But later lots of the 581 casks of red wine showed little or no increase, so the final percentage advance was only 13.51.

The turnover was FFr29m compared with FFr24m last year.

Some people believe that the wines, which are available for tasting in the Hospices cellars two days before auction, are far too young to be judged properly.

The whites are often still cloudy with unfermented residual sugar, the reds prickly with the second fermentation.

Yet the auction is a firm fixture in the French wine year. The sale of the first lots is always reported immediately on French television.

The Hospices de Beaune are a general hospital and an old people's home founded in 1453 by the Chancellor of the Duchy of Burgundy, Nicholas Rolin and his wife Guigone de Salins. They own vineyards on the Côte de Beaune in areas including Beaune, Volnay, Meursault and Aloxe-Corton.

The wines are all made in the Hospices cellars and sold in 228 litre new oak casks. The Hospices do not, however, mature and bottle them, and successful bidders must remove their wines in January or pay interest.

The refusal of the Hospices authorities to keep and bottle their wines is much criticised, for the ultimate quality will depend on how they have been "brought up" by the many purchasers; and in particular how the casks have been topped up regularly in the intervening period before bottling.

Local merchants, who buy many of the lots, say that the prices, influenced by the charity and publicity aspects of the sale are only marginally related to the subsequent trade.

Nevertheless, next morning the many small growers in the region will carefully study the results published in the local press and set their prices according to the trends revealed by the percentage increases, or much more rarely, the decreases, in the prices paid for the red and white wines.

Community pledges aid

Continued from Page 1

Mr Mitterrand made clear afterwards that an IMF go-ahead would be the key for unlocking economic aid by members of the EC, in particular a projected $1bn "stabilisation fund" for Poland and a planned $1bn bridging loan for Hungary. The Community will attempt to co-ordinate economic aid programmes with other Western industrialised countries in a meeting of 24 governments in Brussels next month.

The summit also undertook to study the creation of a new East European Development Bank, along the lines of regional development banks in the World Bank system, as proposed by Mr Mitterrand. Detailed proposals for this bank will be drawn up in time for the Strasbourg summit. However, the French President's sense of urgency for this project was not shared by everybody ,including Mrs Thatcher.

THE LEX COLUMN

The politics of the D-Mark

The prospect of US interest rates dipping below West German interest rates for the first time in more than a decade is the sort of event which is almost as unsettling for the world's financial markets as the political upheavals now under way in Eastern Europe. After all it was only a year ago that short-term West German rates were below 5 per cent, US rates were over 9 per cent, and the dollar had sunk to a record low of 120 yen.

Since then short-term US interest rates have fallen by 100 basis points, West German interest rates have been raised by two thirds, yet the dollar's effective exchange rate has risen by close to 10 per cent. To blame this substantial turnaround in market perceptions on growing political uncertainties in East and West Germany is unrealistic. It would be wrong to ignore the not inconsiderable political uncertainties in the US.

West Germany runs a persistent current account surplus, which should be close to $60bn this year and next. Admittedly, there has been a recent modest improvement in the US trade position, yet the US is still likely to have a current account deficit of about $100bn next year, and it remains the world's largest debtor country with nearly $600bn of foreign debt. Meanwhile, the West German economy, for the first time in a long time, is growing considerably faster than the US economy. Yet there is no suggestion that West German inflation will not continue to remain well below that in the US. The next move in West German interest rates will probably be upwards, while the opposite holds true in the US. Over time, changes in interest rate differentials tend to have far more impact on exchange rates than political uncertainties.

Water shares

Will this week's flotation of the shares in the 10 new water utilities pose a bigger threat to the traditional rating of British Telecom and British Gas, or to the index-linked gilts market? In terms of size, water will be roughly a fifth of the combined £25bn stock market capitalisation of Gas and Telecom. But by comparison with the £13bn index-linked gilts market, it looks a much bigger issue.

Similarly, although water's prospective yield of 8¼ per cent, say, stands up well against the 5.7 per cent and 6.9 per cent respectively offered by Telecom and Gas, if water shares are regarded as effective inflation-proof stock they could have a potentially serious knock-on effect on an already unpopular corner of the financial markets.

If the water companies can deliver 5 per cent a year real growth in dividends, this will be better than the average growth in corporate dividends in the 1980s. However, depending on how seriously one takes the inflation-proofing arguments, water shares could pose a more serious threat to index-linked gilts than conventional equities. Index-linked gilts are only offering real returns of 3.5 per cent and there is always the prospect that their scarcity value may be undermined by the water companies' own wish to tap the index-linked market.

Shareholders

Whatever one thinks about Friday's shareholder vote which ratified LWT's restructuring, it was true to City form. Outside of bids, it is hard to recall occasions when the board of a decent-sized public company has been voted down in public on a significant issue. Either British managers are infallible, or most institutions lack the willpower to challenge management thinking.

Recent examples of shareholder revolts were last year's defeat of Sun Life's alliance with a French insurer and the temporary blockage of Lloyds Bank's cut-price takeover of Abbey Life. But Sun Life was anomalous because of the personal clashes involved, while with Abbey rejigging the proposals ended the impasse.

In practice, institutional shareholders reserve their public protests for three issues: pre-emption rights, excessive executive share options, or the rights and wrongs of management buy-outs. The best evidence is the Burton share options row, and cases the same year where Fisons and Beazer dropped or modified overseas equity placings, although none of these actually involved a vote against the board.

All this may help explain why LWT's scheme went through. It looked like a breach of the spirit of institutional guidelines on executive share options. But because the LWT scheme was new and unusual, the letter was hard to apply. Perhaps those shareholders which voted against it should not just let the matter drop, but start refining institutional thinking so as to prevent repetitions elsewhere.

Wall Street

The sight of a $50bn company like General Electric of the US planning to repurchase up to $10bn of its shares, along with a 15 per cent dividend increase, is the sort of bullish announcement which just might help Wall Street follow Tokyo into new high ground.

It comes at a time when the underlying fundamentals have been deteriorating. Standard & Poor's estimates that US corporate profits in the third quarter were 12 per cent down on the previous quarter; average dividend increases had dropped from 9 per cent in the first half to just 2 per cent in the last quarter; and Birinyi Associates calculates that corporate share repurchases of $30.5bn in the first nine months of 1989 were running 38 per lower than last year. But when a blue chip company like GE can reward its shareholders in this fashion and be confident that its Triple A rating will be unimpaired, the bears could have difficulty making their case stick.

Ahead of the GE announcement, the substantial decline in corporate share repurchases was not particularly surprising; the higher the stock market goes the less incentive there is to buy back stock. Much more puzzling is the fact that the more than one-fifth rise in Wall Street has not stimulated any increase in new issue activity. Quite the reverse is the case: according to Birinyi, there were only $15bn of new equity issues in the first nine months of 1989 compared with $27bn in the same period last year, $36bn in 1987 and $48bn in 1986. If corporate America is more highly leveraged than it was in 1982, and debt servicing costs are now accounting for a third of its cash flow, it can hardly be avoiding issuing new equity because it thinks the stock market is too low.

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INSIDE

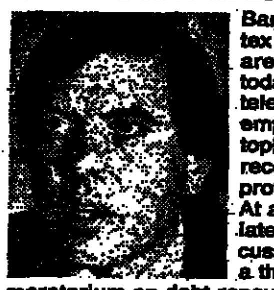
Sour ending for junk bond joke

In the middle 1980s, the US investing public fell prey to an elaborate practical joke. This joke, which was acted out with an admirably straight face by many Wall Street bankers and several businessmen, involved the promise of very high yields on the debt securities of certain highly leveraged US corporations. These bonds had a singular feature. The eye-catching yield was merely optical, a trick of the light. But the risk was very real, writes James Buchan. Page 28

Dreams into reality

European film buffs who have dreamed of acting in their favourite movies will soon have a chance to turn their fantasies into reality. Well, almost. Buoyed by the success of its greatly oversubscribed flotation earlier this month, Euro Disneyland is planning a second theme park outside Paris. The park, to be based on the Hollywood film industry, will include replicas of Hollywood Boulevard, Melrose Avenue and Sunset Boulevard, where visitors will be able to take part in re-enacted scenes from classic movies. Page 27

Qintex's fate in balance



Bank lenders to the Qintex group in Australia are expected to decide today whether to put the television and resorts empire headed by Christopher Skase (left) into receivership or even provisional liquidation. At a series of meetings late last week they discussed both options and a third possibility of a moratorium on debt repayments pending the orderly sale of Qintex's assets. Chris Sherwell reports. Page 27

General Electric plans attack from the east

The US group's move into Hungary has wide implications for European industry, writes Charles Leadbeater

Mr Paolo Fresco, the engaging, Italian international alliance maker at General Electric, the US conglomerate, feels at home with the Hungarian officials he has been negotiating with over the future of Tungsram, the Hungarian lighting equipment manufacturer.

"Talking to Hungarian businessmen is rather like talking to Austrians or northern Italians. There is a lot of cultural compatibility. After all, we were all part of the Habsburg empire 80 years ago," he says.

Indeed, GE's links with Tungsram, which was established in 1896, go back to 1913, when the Hungarian company was licensed to use a GE patent. With political change sweeping through eastern Europe, those longstanding links between the two companies are being revived.

GE announced last week that it was on the verge of paying $150m (£95m) for a majority stake in Tungsram in one of the largest inward investments in eastern Europe. The deal differs markedly from other agreements western companies have signed in the region.

It is not a joint venture. GE, which has interests embracing power generation, medical systems and financial services, is acquiring Tungsram with the aim of eventually integrating its management within its global empire.

Previous deals have concentrated on western companies providing eastern allies with help on sales, distribution and marketing. GE intends to provide Tungsram with sophisticated production technology and management training.

Yet the deal's significance extends well beyond this. For it is the clearest signal yet of how political reform in eastern Europe could redraw the contours of European industry, extend the geographic and political boundaries of the EC's 1992 programme and alter the global strategies of such companies as GE.

Mr Fresco says: "The East-West division is becoming blurred. It does not matter that we are in the eastern part of Europe. It gives us a strong foothold in Europe."

Mr Fresco has been in intense negotiations with Hungarian officials for the past two months, after first realising the extent of their enthusiasm for foreign capital six months ago. "We like what we see, we have had a very good reception," he says.

So GE is looking for further opportunities in the country, which has taken the lead in eastern Europe in liberalising its economy to attract investment. It also has preliminary agreement for two joint ventures in the Soviet Union involving medical systems and power generation.

According to Mr Tim Newling, managing director of the Hungarian International Bank in London, leading companies are starting to beat a well-worn track to Budapest. "This deal is an extremely good signal to western companies about how the Hungarians do business. Lots of manufacturing companies are coming to see us interested in inward investment."

In some ways, however, the Tungsram deal might be a poor guide as to what awaits them. The company has never been fully integrated into central planning. It already has strong links with the West. A large portion of its $300m-a-year turnover goes to export. Earlier this year, a consortium of western banks, led by Girozentrale, the Austrian bank, bought a 49.6 per cent stake in the company. The Hungarian Credit Bank, which retains a 41 per cent stake, is negotiating to buy the Girozentrale shares, to sell them on to GE.

Lydia van der Meer
Paulo Fresco: "The world is moving and we have to move with it"

However, there is one aspect to the deal which has much wider implications. GE clearly plans to use Tungsram as a low-cost base from which to attack the European market. It has an option to increase its planned stake from 50 per cent to 70 per cent if Tungsram's exports can be doubled.

So the Tungsram deal will have important implications for the European industry, which is dominated by Philips of the Netherlands; Osram, which is jointly owned by Siemens and GEC; and Thorn EMI, the UK group.

Mr Hamish Bryce, managing director of Thorn EMI's lighting division, says of the deal: "It is too early to assess what it will mean in detail. But it is a significant move in the industry."

Mr Fresco says a detailed manufacturing plan for Tungsram's 12 factories, which employ about 18,000, is yet to be drawn up. But GE does not rule out the possibility that heavy investment at Tungsram might have consequences for its existing European manufacturing plants.

This highlights the dilemma for western European governments. They are keen to support political reform in eastern Europe by encouraging economic modernisation using western capital. Yet if this leads companies to use Poland, Hungary and East Germany as low-cost production sites for exports to the western market it could seriously disrupt the 1992 programme. The debates within the EC about how regional aid, state support for industries, barriers to trade and so-called social dumping may distort competition would be put on an entirely different footing, with the creation of an officially sanctioned area of subsidised production in the EC's backyard.

Mr Fresco is clear about GE's main target in Europe. "Politically, what is going on in eastern Europe is probably most important. But the most important economic event is the 1992 programme."

He believes events in the last few weeks will both accelerate the programme and yet throw its boundaries in doubt. "We are looking at a rapidly changing industrial and economic map. It is not just the EC, but also the future of four or five east European economies and the Nordic states in Efta. The world is moving and we have to move with it."

While much of the British political debate about Europe recently has been cast in the inward-looking technicalities of plans for economic and monetary union, GE's approach appears more expansive.

Through such deals as the Tungsram investment, the Hungarian economy will not just draw closer to western European economies. It could be integrated into the wider international market.

East Berliners may have forced the most dramatic opening in the iron curtain. But if GE's move is anything to go by, trans-national companies will not be far behind. As one GE official said: "This is the biggest move a western company has made into eastern Europe since the Second World War."

Investment openings, Page 44

America frets in the dug-out

By Anthony Harris in Washington

Things are turning soft and fidgety this fall; the economy soft, and the mood fidgety.

The country shows some of the mood of a veteran linebacker suddenly consigned to the bench (though for the headline I have adopted an out-of-season metaphor from baseball rather than football, for the sake of a rather obvious double meaning). Such a player is edgy, and tends to grumble at the coach. It is a mood which could turn into a sulky isolationism.

The media are virtually monopolised by the astonishing events in Europe; but it is not clear what role, if any, the US has to play in developments which it has dreamed about for so long. The revealing picture of Mr Bush meeting the press after the Wall came down is constantly replayed on television: his words say he is elated, but his face says that he is a manager who suddenly has to redraft the corporate plan, just after it was sent to the binders.

The President is not yet suffering politically from his role on the world's sidelines, though there is surprisingly little excitement about what ought, from its background, to be an historic summit off Malta; but ex-President Reagan's stock has fallen heavily. His $2m speaking tour in Japan is just the kind of personal enterprise he has always stood for, and he expressed American views forcefully; but the commentators are treating it as a pure sell-out, as if he were an office block.

Mr Reagan seems to be a victim of two developments which threaten trouble for Mr Bush, and perhaps for the rest of us: anti-Japanese paranoia, and a more general disillusionment with the themes of the 1980s – defensive strength, world leadership, free trade and admiration for the very rich. The edginess about Japan defies rational explanation, but is now seen as a real problem here and in Tokyo.

Cabinet members make speeches about the benefits of inward investment, which shows some political courage, while the Ministry of Finance in Tokyo is reported to have embargoed purchases of "conspicuous" real estate for three months. The fact that MAF, as the ministry is generally known, could no doubt make such an embargo stick illustrates the real problem of trading with Japan, which is a very odd sort of free market.

The truth is that buying urban real estate is the least threatening of all forms of inward investment, but Mitsubishi's purchase of the Rockefeller Centre in New York has become this month's symbol of American decline. This would not be so if the buyer were British or Dutch – or, still more likely, Canadian; all three countries invest much more in the US than the Japanese. There is clearly a racial theme here, as the more thoughtful commentators uneasily admit; for the time being, it has made Japan a lightning conductor for US unease.

Meanwhile, the British bid for Dunkin' Donuts, to add to a portfolio of British-owned household names which includes Brooks Brothers, Holiday Inns, Pepperidge Farm and Burger King, to name a small handful of recent buys, has provoked no comment at all. This may owe something to the British Government's timely surrender of its blocking votes against Ford's purchase of Jaguar, a minor diplomatic coup; but this benevolent mood may not last.

The Democrats are looking for new national themes to consolidate their election successes this month, and Congressman Richard Gephardt, who ran a protectionist campaign for the Democratic presidential nomination last year, is trying to take the lead. A move to impede inward investment, which would as a side-effect put downward pressure on the dollar, is superficially appealing both politically and economically. If the party saw any real chance of making Mr Bush a one-term President, they might find the invitation irresistible.

Readers of this column will need no reminding of how false the logic is; restrictions on capital flows would make the US less competitive. They would probably also produce the dollar crisis which has been forecast so repeatedly by experts whose thinking habits were formed under the Bretton Woods system.

Industrial protection, which was extended considerably in the Reagan years, is already causing damage enough, as some US buyers of industrial supplies are very belatedly pointing out through their lobbyists. However, politicians struggling with a dissatisfied public do not put logic first in taking their decisions. The real economic question, then, is how long the present mood is likely to last.

President Bush is not well placed to face these challenges. He won his election on a cunningly-contrived wave of nostalgia for the very Reagan themes which now seem to be out of fashion. He is trying to pursue much more appropriate policies, but has so far managed to enrage his own right-wing supporters without winning any kudos with more liberal voters.

The Defence Secretary has now announced a programme of meaningful spending cuts; but the Administration faces not only the congressional hurdles discussed here last week, but the possibility that, while Mr Bush disarms, Mr Gorbachev will get most of the credit as a peacemaker. This verdict is already suggested in the opinion polls.

These prestige questions will not affect the outlook for peace; Mr Bush is much too level-headed to be diverted from his major objectives by pique. He may find himself hampered, though, if the drift to isolationism gathers any real force. At the moment, it is limited to neurosis about Japanese investment, and right-wing demands to bring the troops home from Europe; but if the economy turns sour, the isolationist pressures could grow, and the President's ability to resist them undermined.

A downturn looks only too possible. A full assessment will need more space than this column offers, but the trade figures this week were uncomfortably suggestive.

Economics Notebook

Glad tidings amid the gloom

IT WAS hardly surprising that a small item of good news from Paris went largely unnoticed in the wake of last week's grim Autumn Statement forecasts for the British economy.

But on Friday, the Organisation for Economic Co-operation and Development announced that it expects real growth in the industrial world will run at a respectable 3 per cent a year over the next two years.

This disclosure, at the end of a two-day meeting of the OECD's Economic Policy Committee, has bolstered the credibility of the Government's forecast of a 6.5 per cent real increase in Britain's exports of goods and services next year.

The Government calculates that this improved export performance, plus a projected slowdown in real import growth to just 1.25 per cent in 1990, should reduce Britain's current account deficit to £15bn in 1990 from the £20bn now expected for this year.

Little else was disclosed about last week's meeting of the senior Treasury and central bank officials from the OECD's 24 member countries who make up the Economic Policy Committee. But it is clear from preliminary OECD documents that the organisation expects a marked change in the pattern of industrial country growth compared with previous years.

Japan is expected to continue as the fastest growing Group of Seven country next year and in 1991. But, in a reversal of recent trends, West Germany and France, which were sluggish performers until 1986, are expected, with Italy, to outperform the remaining G7 countries in 1990 and 1991.

As the rest of the European Community is Britain's major trading partner, this transfer of growth to the Continent is another reason for hoping that Britain's current account deficit may improve next year.

A new survey of 150 international economic forecasters compiled by Consensus Economics* lends support to the growth pattern discussed in Paris. This suggests that the English speaking G7 economies – Britain, the US and Canada – will suffer the sharpest slowdowns in economic activity next year. The survey, which was published the day before Mr John Major, the Chancellor, delivered his statement, put British growth in 1990 at 1.4 per cent. Canada is also expected to grow by only 1.4 per cent, while growth in the US is forecast at 1.8 per cent in 1990.

The Consensus Economics survey put growth in both France and West Germany at 3 per cent next year, while Italy's economy is forecast to expand by 3.1 per cent. Japan is expected to grow by 4.2 per cent in 1990 and continue growing at around this rate for the following four years.

Co-ordination

The OECD meeting saw little prospect in the short term of any easing of the large imbalance between the current account deficit of the US and the surpluses of Japan and West Germany. Although a growing number of economists play down the importance of the imbalances, their persistence still worries governments and is almost certain to keep policy co-ordination high on the international agenda.

But what form should policy co-ordination take? Since the Plaza Agreement of September 1985 and the Louvre Accord of February 1987, co-ordination generally has been taken to mean joint action on currency markets to manipulate exchange rates. But this interpretation is looking increasingly outdated. The inflationary pressures of the past two years have forced policy makers to tackle domestic problems first.

Personalities have also changed among G7 finance ministers. The resignation last month of Mr Nigel Lawson as Chancellor leaves only France's Pierre Bérégovoy with a clear record of pushing hard for currency stability.

On a visit to London last week, Mr Jacob Frenkel, the director of the International Monetary Fund's research department, seemed anxious to play down the idea of policy co-ordination in favour of a less emotive concept: co-operation.

One of Mr Frenkel's themes appeared to be that co-operation begins at home. The major industrial countries, having overburdened monetary policy in recent years, should now develop an arsenal of policy instruments to help solve their problems.

Hence, the US should act to cut its budget deficit. Other nations should look at their fiscal policies to see whether they give sufficient encouragement to savings and whether they incorporate automatic stabilisers that will help offset the extremes of the business cycle.

This is a world where international co-operation is a mechanism and not a policy in itself. Intervention and currency market management can still play a role. But Mr Frenkel appears to suggest that perhaps the best that can be achieved among countries as diverse as the G7 members is a greater awareness of each others' problems when formulating their own policies.

*Consensus Economics, 36 - 38 Fenchurch Street, London EC3M 3DQ.

Peter Norman

THIS WEEK

THE ATTENTION of UK financial markets this week will focus on Thursday's trade figures, which – combined with the money supply data on Tuesday – should provide the first big test for Mr John Major, the Chancellor, since he took office just over three weeks ago.

The trade deficit, along with inflation, has been the markets' and the Government's biggest bugbear this year. The unexpectedly large deficits in July and August undermined the pound and forced the Government to put up interest rates in an attempt to halt the currency's slide.

September's deficit was regarded as mildly encouraging – and analysts are hoping for a similar figure for October – but the underlying trend and the prospect of a £20bn deficit by the end of the year continues to worry markets.

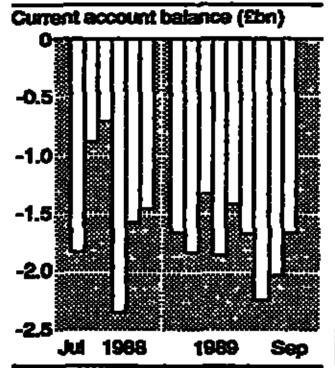
Although there has been a gradual improvement in exports in recent months, helped by steady growth in world trade, imports have been increasing at a faster rate. The recent weakness of sterling should boost the competitiveness of British goods abroad, but it will also make imports more expensive, adding to domestic inflationary pressures.

The consensus of analysts' forecasts, compiled by MMS International, the financial research company, is for a current account deficit of £1.7bn in October, slightly higher than the £1.6bn shortfall recorded in September.

Tuesday's money supply figures will also be closely watched for an indication of further slowing in the pace of economic activity. The markets are hoping for a big improvement in bank lending after the £10.2bn rise in September. The MMS International consensus is for £7.9bn in bank lending, a 1.1 per cent rise in M4 and a 0.5 per cent rise in M0.

In the US, consumer prices and real earnings will provide an idea of the extent of inflationary pressures in the economy, which in recent months have shown signs of moderating. The MMS International consensus is for an increase of 0.4 per cent in the October consumer prices index after September's 0.2 per cent rise. Real earnings are forecast to have risen by 0.6 per cent, compared with the 0.2 per cent rise in the previous month.

UK trade deficit



Opec's final ministerial meeting of the year opens in Vienna on Friday. The most important issue facing the organisation is how to restructure quotas to alleviate the overproduction problems of some of its Gulf members.

Other events and statistics due this week include:

Today: UK, provisional manufacturers and distributors' stocks for third quarter. West Germany, producer prices and money supply for October.

Tomorrow: UK, preliminary output-based gross domestic product for third quarter.

Wednesday: UK, provisional construction new orders for September. US, durable orders and federal budget statement for October.

Thursday: West Germany, export/import price index for October.

Friday: UK, building societies monthly figures and cyclical economic indicators for October. Japan, current account, unemployment and consumer prices for October.

November 1989

Isosceles PLC

has acquired

The Gateway Corporation PLC

The undersigned provided a valuation of the Isosceles PLC stub equity offered to The Gateway Corporation PLC shareholders.

Salomon Brothers International Limited

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Startling case of a market's gift for self-mutilation

OLD HABITS die hard. On plenty of occasions in the past, the Eurobond market has shown an unusual gift for shooting itself in the foot.

Its latest attempt at self-mutilation may unwittingly have succeeded in driving away its largest corporate borrower, while the fixed-price method of underwriting deals for non-sovereign borrowers is certainly carrying a nasty flesh wound.

The GMac $500m five-year deal launched on Friday morning by Merrill Lynch at a reoffered spread of 86 basis points over Treasuries was the agent: a slightly stale Euromarket, confused about the direction of client demand and uncertain about appropriate underwriting methods, was the medium to which it was applied.

The effect was startling. Two leading houses, Morgan Stanley and UBS Phillips & Drew, pulled out of the deal, one citing a policy disagreement with the lead manager, the other persistently arguing that the launch spread was too tight (even though Merrill had persuaded the borrower to pay another $200,000 to bring the issue). Another house, Goldman Sachs, came in.

When the deal did hit the market, it had the misfortune to coincide with a fall in Treasury bond prices, with the result that its spread narrowed to an expensive 80 basis points. A blatant spoiling bid at 99.65 in the morning from CSFB (implying a spread of 93 basis points) did not help matters.

Suddenly, Merrill faced in practice what rivals had only been able to theorise about – how do you handle a fixed-price reoffered deal against the background of a falling market? Break syndicate too quickly, and the lead manager risks free-fall as price discipline collapses and syndicate members throw out their bonds through the brokers.

Hold it too long, and the fixed price might begin to look ridiculous as the implied spread narrows and makes sales impossible. The lead manager would have to lower its bid in line with the fall in Treasuries, while the offer price stayed the same.

Arguably, Merrill chose the worst of both worlds, neither breaking syndicate immediately and letting the bonds find a level, nor keeping the deal in syndicate through a rough patch and mopping up loose paper in the knowledge that it could exercise strong control over the issue later.

When the syndicate was broken in the mid-afternoon on Friday, the price of the GMac bonds fell from the 99.95 reoffer level to 99.70 bid, implying a spread of nearer 88 basis points over Treasuries.

Traders said there had been plenty of paper finding its way back to Merrill, although several members of the syndicate said they were happy to hold their bonds. In fact, banks in the group were warm in their praise of Merrill's handling of the issue after pricing, saying they had been fairly treated on their allocations and given good support. Most of the co-managers were philosophical, saying they had been able to hedge their positions and that they would continue to try to sell their paper.

By Friday evening, then, the GMac issue had reached a temporary stalemate. Its performance this week is likely to be steady, if slow, as Merrill tries to keep a tight rein.

There was much comment, however, that the fixed price reoffered method of pricing and distributing Eurobonds had failed its most important test. In particular, the inability of banks to agree an orderly means of negotiating an agreed price appears to be a fatal flaw in the concept.

Merrill said it had felt strongly that such an issue did not have to be an automatic blow-out, and that underwriters should not complain about working for their fees. It had underwritten more than half the GMac bonds, and felt justified in having the big say over the pricing.

There is the rub. When the co-managers disagree with the lead manager on price, it is only too easy to reach a point where the lead is effectively imposing on the market a bought deal under another name. In the US capital market, a cartel of leading banks reaches a genuine, profitable, but anti-competitive, consensus on pricing. Competition in the Euromarket is nicely hindering the development of such a cosy situation.

This week the debate is likely to take another twist when Bankers Trust, well known for its critical stance towards the cartellisation threatened by the fixed-price reoffering, will try a new method. It believes that profitibility and price discipline can be addressed by a compromise.

Bankers hopes to bring a AAA-rated sovereign borrower with a five-year dollar deal. If the mandate is formally confirmed this morning, Bankers will invite a small group of co-lead managers to reach a consensus price to within a single basis point. The price will reflect where the group believes it can sell the bonds.

With that spread in mind, Bankers will then set the all-in cost to the borrower to reflect an underwriting fee for the group. Thus, for example, if the agreed price is 55 basis points over Treasuries, the borrower will pay 59 basis points for the deal, implying a four basis point fee (or 15 cents) for the syndicate.

During syndication, Bankers will guarantee to keep a bid at 55 basis points over Treasuries, but syndicate members will be allowed by a traditional fee structure to sell bonds at any spread above 55 basis point where they can genuinely distribute bonds.

Clearly this technique will need careful examination when it is put into practice. Until then, it holds out a possible salve to the wounds caused by the GMac deal.

Andrew Freeman

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Toshiba Ceramics♦◆	100	1993	4	$3\frac{3}{8}$	100	Nomura Int.	3.375
Penta-Ocean Constr'ion♦	100	1993	4	($3\frac{7}{8}$)	100	Yamaichi Int. (Eur)	★
Nippon Electric Glass♦	150	1994	5	($4\frac{1}{2}$)	100	Daiwa Europe	★
Reed Publishing (USA)◆	125	1994	5	9	101.45	CSFB	8.631
Sekisui Plastics♦	*100*	*1993*	*4*	*($3\frac{7}{8}$)*	*100*	*Nikko Secs. (Europe)*	★
Gen. Motors Acc.Corp.◆	500	1994	5	$8\frac{3}{4}$	99.95	Merrill Lynch Int.	8.763
St.Andrews Fund. I&II‡◆	70	1999	10	(r)	100	First Bk System C.Mkts	-
CANADIAN DOLLARS							
LB Rheinland-Pfalz(g)◆	*25*	*1992*	*$2\frac{1}{2}$*	*11*	*101.275*	*Mitsubishi Fin. Int.*	*10.331*
CIBC (London)◆	100	1991	2	$11\frac{5}{8}$	101.65	Wood Gundy	10.666
AUSTRALIAN DOLLARS							
Finance Co. S.Australia◆	50	1991	2	$17\frac{1}{8}$	101.95	CCF	15.912
D-MARKS							
Japan Synthetic Rubber♦◆	200	1994	5	$1\frac{5}{8}$	100	BHF-Bank	1.625
Ono Sokki Co.♦◆	70	1993	4	$1\frac{1}{2}$	100	Commerzbank	1.500
Topre Corp.♦◆	70	1993	4	$1\frac{5}{8}$	100	Deutsche Bank	1.625
MBE Finance NV(d)◆	*70*	*1997*	*8*	*(d)*	*$102\frac{5}{8}$*	*Mitsubishi Bank*	-
Toshiba Tungaloy Co.♦	120	1993	4	($1\frac{5}{8}$)	100	Nomura Europe	★
Sanyo Special Steel Co.♦	150	1993	4	($1\frac{5}{8}$)	100	Deutsche Bank	★
EIB◆	400	1999	10	$7\frac{1}{2}$	$100\frac{5}{8}$	Deutsche Bank	7.409
G'zentrale-Vienna(h)★★‡◆	70	1999	10	(h)	102	Bank of Tokyo	-
Aichi Tokei Denki Co.♦	45	1994	5	$1\frac{7}{8}$	100	Deutsche Bank	1.875
SWISS FRANCS							
Honshu Paper Co.★★♦◆	200	1994	-	$1\frac{1}{4}$	100	Credit Suisse	1.250
City of Yokohama◆	110	1999	-	$6\frac{1}{4}$	$101\frac{1}{2}$	Bqe Paribas (Suisse)	6.046
Aegon NV★★◆	100	1994	-	$6\frac{1}{2}$	$100\frac{1}{2}$	SBC	6.380
Electricite de France◆	125	2001	-	$6\frac{1}{4}$	102	SBC	5.996
Hessische Landesbank★★◆	*125*	*1995*	-	*$6\frac{1}{2}$*	*$100\frac{5}{8}$*	*Credit Suisse*	*6.350*
LKB Baden-W'temberg★★◆	100	1995	-	$6\frac{1}{2}$	$100\frac{5}{8}$	Credit Suisse	6.350
SE Banken◆	100	1995	-	$6\frac{1}{2}$	$101\frac{1}{2}$	Credit Suisse	6.143
STERLING							
Nat.Westminster Bk(j)‡◆	*300*	*2009*	*20*	*$\frac{1}{8}$*	*100*	*Merrill Lynch Int.*	-
TMC PIMBS 3rd Fin.(k)‡◆	150	2029	$6\frac{1}{2}$	(k)	100	Salomon Brothers	-
TMC PIMBS 3rd Fin.(l)‡◆	100	2029	$1\frac{1}{2}$	(l)	100	Salomon Brothers	-
Alliance & Leicester◆	200	1995	6	Zero	$50\frac{3}{4}$	Hambros Bank	11.968

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
ECUs							
EIB◆	*200*	*1999*	*10*	*$9\frac{1}{4}$*	*$101\frac{5}{8}$*	*Paribas Cap. Markets*	*8.997*
Fiat Finance & Trade◆	65	1992	2.2	10	$101\frac{3}{8}$	Credit Lyonnais	9.244
Kredietbank Int. Fin.◆	50	1990	1	11	101.65	Kredietbank Int.	9.198
Tokyo Electric Power Co◆	150	1996	7	$9\frac{5}{8}$	$101\frac{3}{4}$	Paribas Cap. Markets	9.274
FRENCH FRANCS							
Interfinance Cr.Nat.(f)◆	500	1993	3.4	$9\frac{1}{8}$	$99\frac{3}{4}$	CCF	9.180
AUSTRIAN SCHILLINGS							
Bay.Hypo. Wechsel-Bank◆	700	1994	5	$7\frac{3}{8}$	100.55	Oest. Laenderbank	7.240
LUXEMBOURG FRANCS							
Belgelectric Finance★★◆	300	1995	6	9	$101\frac{3}{4}$	Kredietbank Int.	8.614
Volvo Group Finance★★◆	300	1993	3	9	$101\frac{1}{4}$	BGL	8.511
Belgelectric Fin.(n)★★◆	900	1995	6	Zero	$61\frac{1}{8}$	Cr.Europeen/Kredietbk	8.550
Kenwood Finance(q)★★◆	400	1993	4	9	$100\frac{3}{4}$	Bqe Paribas Lux.	8.770
Parbel Int. Fin.★★◆	300	1995	$5\frac{1}{2}$	9	$101\frac{1}{2}$	Bqe Paribas Lux.	8.624
Parbel Int. Fin.★★◆	300	1995	$5\frac{1}{2}$	Zero	$63\frac{1}{2}$	Bqe Paribas Lux.	8.607
YEN							
Okobank(a)‡◆	1.5bn	1990	1	(a)	$100\frac{7}{8}$	Mitsubishi Fin. Int.	-
Okobank(b)‡◆	1bn	1990	1	(b)	$100\frac{7}{8}$	Mitsubishi Fin. Int.	-
Denmark, Kingdom of(c)◆	*120bn*	*1996*	*7*	*7.3*	*100.65*	*Nomura Secs.*	7.179
Monte d'Paschi d'Siena◆	10bn	1993	$3\frac{1}{4}$	$6\frac{3}{8}$	$101\frac{1}{4}$	Taiyo Kobe Int.	5.929
Credit Local(e)◆	10bn	1994	5	(e)	$101\frac{5}{8}$	Daiwa Europe	-
Skopbank◆	10bn	1992	3	$6\frac{3}{8}$	101.275	IBJ Int.	5.899
Skopbank(i)◆	2.5bn	1990	1	6.65	$100\frac{7}{8}$	Toyo Trust Int.	5.725
Montreal Trust Co.◆	*10bn*	*1993*	*$3\frac{1}{4}$*	*6.4*	*$101\frac{1}{4}$*	*Bk of Tokyo Cap.Mkts*	5.954
C'wealth Bk Australia◆	10bn	1993	$3\frac{1}{4}$	$6\frac{3}{8}$	$101\frac{1}{4}$	Nomura Int.	5.929
Fed.Nat.Mortgage Ass(o)◆	10bn	1996	7	7.3	100	Nomura Secs.	7.433
Fin.for Danish Ind.(p)◆	5bn	1994	5	(p)	100.10	J.P. Morgan Secs.	-
CIBC◆	5bn	1993	$3\frac{1}{4}$	$6\frac{3}{8}$	$101\frac{5}{8}$	Fuji Int.	5.800

★Not yet priced. ★★Private placement. ♦With equity warrants. §Convertible. ‡Floating rate notes. ◆Variable rate notes. ◆Final terms. a) 1/16 over 3-month Libor for three months then 7¼%. b) 1/16 over 3-month Libor for three months then 75bp over 3-month Libor. a and b) Redemption linked to Nikkei stock Index. c) Coupon payable in A$. d) Coupon 5.65% first 2 years in DM, then 9% in US$. Call December 1991 at 100 in DM. If call not exercised redemption will be in US$ at $5,400 per DM10,000. e) June 1990 6¼% in yen, December 1990 7½% in A$ (semi-annual), then 7½% in A$ (annual). f) Fungible with FFr700m bond launched March 1986 and increased to FFr1bn. g) Fungible with C$75m bond launched in May from March 1990. Issue price plus accrued interest. h) 40bp over 6-month Libor first three years then fixed coupon of 6⅞%. Call after three years at 100. i) Redemption linked to Nikkei stock index. j) Initial coupon ⅛ over 3-month Libor. Fall back rate ⅜ over Libor years 1-5, ½ over years 6-10, ⅝ over years 11-15 and ¾ over thereafter. k) 25bp over 3-month Libor rising to +50bp after 10 years. l) 18bp over 3-month Libor rising to +50bp after four years. m) k) and l) Call after 10 years at 100. Call after 5 years if £25m or less is outstanding. n) Launched in three tranches. o) Reverse dual-currency issue. Coupon payable in A$. p) 5.3% for six months, then five year yen-yen interest swap rates -20bp. q) Launched in two tranches of LFr200m each. r) Launched in two $35m tranches - pays 25bp over 6-month Libor. One series pays 25bp over 3-month Libor. Investor call option at 10 years to call underlying securities. Can be extended for 30 years at FSA's option. Backed by perpetual frns and coupon and zero coupon bonds. Note: Yields are calculated on AIBD basis.

INTERNATIONAL LOANS

Mixed signals over leveraged finance

MIXED SIGNALS from the world of leveraged finance. From Europe, the picture continues to look difficult, with confirmation of the collapse of a deal in France and two important UK deals going slowly.

From the US, the largest bank financing to be arranged for a leveraged takeover since the nearly-disastrous flop to raise $7.2bn for UAL is said to have been heavily oversubscribed.

The successful US syndication was by Bank of America for the roughly $5bn of financing needed for the bid by Georgia-Pacific, the third largest lumber producer in the US, for Great Northern Nekoosa, another pulp and paper producer. Some bankers suggested subscriptions totalled $10bn.

However, news of further difficulties for existing LBOs in the US suggests the sector will be difficult for some time to come. Latest casualty: SCI Television, the Nashville-based owner of six television stations, which appeared to be heading for protection from creditors under Chapter 11 of the bankruptcy code.

The £214m management buy-out of Sicli, the French fire protection and detection group, collapsed but not because of syndication problems. The management apparently could not gain the necessary 95 per cent shareholding, the critical mass required under French law. This high percentage represents an important barrier to growth of the idea in France.

Syndication both of the important Isoceles financing for the takeover of the Gateway supermarkets group, led by Warburg, and the Anglo United bid for Coalite, led by Midland Montagu, are both said to be going slowly. The extreme chariness of Japanese banks over UK leveraged financings is not helping.

Elsewhere, Finnish companies are flooding the international loans market with requests for syndicated credits, a rush prompted by a government plan to introduce a tax on corporate borrowings abroad.

The tax, effective February 1, will impose a 0.5 per cent tax on loan drawdowns by companies in Finland. Estimates suggest that mandates on 14 modestly sized Finnish deals, totalling perhaps $1bn, are being bid on by banks.

Most companies expect tight pricing – a recent deal for United Paper Mills came at an all-in cost of less than 20 basis points. While offering only slim margins, the companies are in a position to take advantage of banks with sackfuls of liquidity and nowhere to unload it.

Trelleborg Mining, a Canadian subsidiary of the Swedish manufacturing group, is raising US$425m through a group of banks led by Royal Bank of Canada (whose $500m five-year credit for Household Finance was signed last week).

The loan, guaranteed by Trelleborg, carries a five-year maturity (plus one day to escape Canadian withholding tax) and carries an interest margin of 25 basis points for the first two years and 35 basis points for the remainder. Front-end fees range down from 7 basis points.

It has been underwritten by Royal Bank, Bank of America, Crédit Suisse and S-E Banken.

AMAG Boyne, an Australian subsidiary of Austria Metall, the state-owned aluminium company, is raising $200m in a 10-year amortising credit to pay for a 20 per cent stake in an Australian smelter. The Australian group Comalco has a 30 per cent stake in the smelter, with Japanese companies also holding significant stakes. Chase Investment Bank is arranging the deal, but has not yet disclosed terms.

Stephen Fidler

EUROMARKET TURNOVER ($m)

	Straights	Conv	FRN	Other
Primary Market				
US$	2,413.8	0.0	0.0	10,432.6
Prev	2,120.2	0.0	418.8	10,172.2
Other	7,633.9	0.9	351.2	4,859.2
Prev	1,174.2	5.9	504.8	3,747.5
Secondary Market				
US$	20,623.3	813.3	4,344.4	8,054.6
Prev	15,407.8	945.1	4,336.3	5,895.7
Other	16,788.5	1,303.2	3,703.5	34,276.5
Prev	15,202.2	980.8	6,821.9	29,263.0

	Cedel	Euroclear	Total
US$	12,266.0	34,619.0	46,885.0
Prev	9,118.3	30,004.2	39,154.5
Other	28,174.3	35,053.1	63,227.4
Prev	21,047.1	36,650.4	57,697.5

Week to November 16, 1989 Source: AIBD

This announcement appears as a matter of record only.

NEW ISSUE 16th November, 1989

KEIO

KEIO TEITO ELECTRIC RAILWAY CO., LTD.

U.S.$300,000,000
3¼ per cent. Bonds 1993
with
Warrants
to subscribe for shares of common stock of Keio Teito Electric Railway Co., Ltd.

ISSUE PRICE 100 PER CENT.

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This announcement appears as a matter of record only.

NEW ISSUE 16th November, 1989

TOSHIBA

TOSHIBA CORPORATION

U.S.$1,200,000,000
3¼ per cent. Bonds Due 1993
with
Warrants
to subscribe for shares of common stock of Toshiba Corporation

ISSUE PRICE 100 PER CENT.

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Chase Investment Bank — Credit Lyonnais Securities
Daiwa Bank (Capital Management) Limited — Hambros Bank Limited
Interallianz Bank Zürich A.G. — KOKUSAI Europe Limited
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Morgan Stanley International — New Japan Securities Europe Limited
Nippon Kangyo Kakumaru (Europe) Limited — Sanyo International Limited
J. Henry Schroder Wagg & Co. Limited — Smith Barney, Harris Upham & Co. Incorporated
Swiss Bank Corporation — UBS Phillips & Drew Securities Limited
Wako International (Europe) Limited

INTERNATIONAL COMPANIES AND FINANCE

Bank creditors to decide on fate of Qintex today

By Chris Sherwell in Sydney

BANK LENDERS to the Qintex group in Australia are expected to decide today whether to put the television and resorts empire into receivership or even provisional liquidation.

At a series of meetings late last week they discussed both options and a third possibility of a moratorium on debt repayments pending the orderly sale of Qintex's assets.

The options go further than previously envisaged by Mr Christopher Skase, who heads Qintex Australia and its parent Qintex Ltd. Both companies are suspended from stock exchange quotation, and his future is intimately bound up with the bankers' decision.

A question facing the lenders concerns Qintex's Channel Seven commercial network. The television licences are a key asset, but appointment of a receiver or provisional liquidator could amount to a change of ownership which is subject to the Australian Broadcasting Tribunal.

Either way the group is thought to need a further injection of funds to continue as a going concern, while the banks are said to be divided over the best course of action. A rival network reported yesterday that the Qintex group would be placed in receivership with Mr Skase himself standing aside.

Christopher Skase: promised to sell three TV stations

The main bank lenders are headed by the Hongkong and Shanghai Bank and include Chase AMP, the State Bank of New South Wales and Barclays. Last week they received a report on the group's finances from Mr David Crawford of Peat Marwick Hungerford.

Estimates of the group's debts range as high as A$1.5bn, ($1.17bn) and to reduce the burden Mr Skase has promised to sell three television stations, one in Adelaide and two regional Queensland stations, and his 51 per cent interest in the Mirage resorts, two of which are in Queensland, one in Hawaii and a property in California.

Separately he remains under the close scrutiny of the National Companies and Securities Commission, Australia's sharemarket watchdog, over a series of controversial payments – A$42m since August 1988 – made to a management company controlled by himself and his executives.

Disneyland sees second theme park near Paris

By William Dawkins in Paris

EURO DISNEYLAND, the US leisure group, is planning to build a second theme park outside Paris to open in 1995, three years after its current project expects to start business.

The decision, announced by Mr Robert Fitzpatrick, chairman of Euro Disneyland, follows the success of the group's greatly oversubscribed flotation on the London and Paris stock exchanges earlier this month.

The second theme park, based on the Hollywood film industry, will require "several billion francs" extra investment on top of the FFr19bn ($3.03bn) earmarked for the first project, said Mr Fitzpatrick, who did not give a precise figure.

Based in Marne-la-Vallée next to the current project, it will be called Disney MGM Studios-Europe and be the main part of Euro Disneyland's second phase of development.

It will include replicas of Hollywood Boulevard, Melrose Avenue and Sunset Boulevard, where visitors will be able to take part in re-enacted scenes from movie classics. Other attractions will include playgrounds, film theatres and mock-ups of earthquakes and tidal waves.

The twin Euro Disneyland developments will cover an area of 2,000 hectares by the year 2020, including 18,000 hotel rooms, two golf courses, 700,000 square metres of office space and a 65,000 square metres shopping centre, said Mr Fitzpatrick.

Hollywood on the edge of its seat

Sony's deal with Warner is raising pulses, reports James Buchan

Last week's settlement of the dispute between Sony and Warner Bros over which gets the services of film producers Mr Jon Peters and Mr Peter Guber is causing ripples of pleasure and excitement in Hollywood.

The deal, which was signed by Mr Steven Ross of Warner and Mr Akio Morita of Sony on Thursday, already being billed as the greatest settlement of a breach-of-contract suit since the $3bn Texaco paid to a rival oil company, Pennzoil, in 1988.

Some people believe the settlement may be worth as much as $500m over the years to Time Warner, the diverse media group which owns Warner Bros and claimed to have a right to Mr Guber and Mr Peters.

Beyond that, the deal shows how much power producers – rather than studios – wield in today's booming Hollywood film business. And it underlines the single-mindedness the Japanese consumer electronics company is bringing to its diversification into films and recorded music, or "entertainment software."

If the $500m figure is anywhere near accurate, Mr Morita and his managers will have spent the better part of $4.2bn to buy Columbia Pictures and two hot producers to run it. Sony paid $3.4bn to Columbia's parent and has bought out the Guber-Peters production company for $200m. And this is over and above the $3bn Sony spent two years ago on the purchase of CBS Records.

Mr Peters, 44, and Mr Guber, 47, are an oddly-assorted pair: one is a former Beverly Hills hairdresser and the other a lawyer.

But in the business of getting films made, Mr Guber and Mr Peters have been unmatched in the 1980s, turning out a string of unpredictable box-office sucesses from The Color Purple to Rain Man, Gorillas in the Mist and the blockbuster Batman.

The dozens of projects they are working on include Hollywood's hottest properties, the Batman sequel and the film version of Mr Tom Wolfe's novel, The Bonfire of the Vanities.

In its lawsuit, which demanded $1bn in damages, Warner claimed that Mr Peters and Mr Guber had signed a contract last March promising only to make movies for Warner for the next five years. Sony and the two producers said that an oral agreement gave the two men a let-out if they were offered the chance to run their own studio.

After some wrangling, Mr Ross, a flamboyant businessman who this summer merged Warner Communications with the Time publishing group, settled last Thursday.

Warner is giving up the two producers and their box-office magic, but gets to keep the current projects including the sequel to Batman and Bonfire of the Vanities.

Warner is also getting no cash. What it does get is a half share in Sony CBS Records record club, a business which Mr Ross has long eyed as a direct outlet for Warner's market-leading record operation.

The club has annual sales of some $500m and is profitable enough to be worth over $600m as a whole, or as much as $300m for Mr Ross's share.

Under the other terms of the agreement, Warner will be able to distribute Columbia Pictures films and programming to cable television networks. The arrangement is expected to increase Warner's bargaining power and distribution fees. Finally, the two studios are swapping their production lots in a real estate deal which is generally seen as favourable to Warner. Together, these elements might be worth up to $200m over time.

S African food group advances

By Jim Jones in Johannesburg

TONGAAT-HULETT, the Natal-based diversified food group, was boosted by higher world sugar prices and a greater domestic market share in the six months to September 30 1989. In contrast, the group's interim performance was restrained by a significant drop in demand for building products.

Interim operating profit before tax and interest rose to R191.6m ($72.9m) from R160.1m, while first half pre-tax profit advanced to R147m, against R126.2m. Half-year turnover was lifted to R1.86bn from R1.62bn last time.

For the last financial year as a whole the trading profit was R326.2m, pre-tax profit R258.8m and turnover R3.16bn.

The directors say production of clay and concrete bricks had been reduced and warn that earnings from building products will be sharply lower this year than last. On the other hand they expect better profits from foods, textiles, starches and sugar. They add that revenues from rolled aluminium products will also increase though domestic demand is forecast to drop in this financial year's second half.

First half earnings rose to 115.7 cents a share from 99.5 cents and the interim dividend has been lifted to 26 cents from 23 cents. Last year's total earnings were 214.3 cents and the full dividend was 71 cents.

Tongaat-Hulett is Anglo American Corporation's principal interest Natal.

Bouygues buys 3% Mixte stake

By William Dawkins

BOUYGUES, one of the world's largest construction companies, has spent FFr727.8m ($116.2m) buying a 3.08 per cent stake in Navigation Mixte, the French food-to-financial services conglomerate.

The purchase is the latest twist in the FFr25.6bn takeover battle for Navigation Mixte, run by Mr Marc Fournier, which came under attack last month from Paribas, the investment banking group.

It brings to 3.88 per cent the stake held by Bouygues, which already owned 0.8 per cent through a subsidiary, Tilsitt Valeurs.

Mr Fournier claims his supporters own almost half of the equity, which means the enlarged Bouygues stake could put the construction company in a pivotal position.

Bouygues paid FFr1,866 for 337,932 existing shares and FFr1,763 for 55,176 new shares being issued by Navigation Mixte, as against the Paribas offer price of FFr1,850. The construction company has also bought 30,650 convertible warrants, which would bring its stake in Navigation Mixte to 4.16 per cent once exercised.

Victoire, the insurance group, meanwhile confirmed it had sold its 3.3 per cent stake in Navigation Mixte in the open market. Paribas owns just over 18 per cent of the conglomerate and is offering cash and paper for the rest.

Lockheed to take $300m charge

By Roderick Oram in New York

LOCKHEED, the US defence group, said it will take a fourth quarter charge of $300m because it had miscalculated the development costs of an antisubmarine aircraft.

It had beaten Boeing for the contract to develop the P-7A, bidding low in the hope it would share many common parts with the P-3 which Lockheed has built for antisubmarine service for many years.

But the new aircraft is turning out to be substantially different, creating losses on the fixed price contract. Wall Street had been expecting some over-run but not by 50 per cent on the $600m contract. The company had taken a $165m third quarter charge on other fixed price contracts.

It has since decided against competing for more of them because it believes the risks are too great. It remains optimistic it can profit from the P-7A when they finally go into production.

Hewlett exceeds forecast with $246m

By Our Financial Staff

HEWLETT-PACKARD, a leading US maker of computers and electronic equipment, edged ahead in the fourth quarter. Profits for the quarter were $246m, or $1.04 a share, up from $243m, or $1.03, in the same period last year.

But the result was stronger than expected, and contrasted with disappointing results from other computer companies, such as IBM and Digital Equipment, whose per-share earnings fell by nearly 30 per cent in the third quarter.

The group's revenues for the quarter rose to $2.68bn, from $2.15bn.

The fourth-quarter net figures include a non-recurring charge of $6m related to the acquisition of Apollo Computer and a charge of about $9m to cover costs related to last month's San Francisco earthquake. Non-recurring factors reduced net earnings for the current quarter by about 14 cents per share.

Full-year net income was up to $829m, or $3.52 a share, compared with $816m, or $3.36 a share, in the 1988/89 fiscal year. Revenues totalled $9.4bn, against $7.71bn a year ago.

Mr John Young, president and chief executive officer, said the strong product position his company had built in the past year meant that it was well placed in for 1990.

TDK boosted by California acquisition

By Stefan Wagstyl in Tokyo

TDK, THE world's largest maker of magnetic recording tapes, reported consolidated sales of Y230bn, pre-tax profits of Y24.8bn, and net profits of Y11.6bn for the six months to the end of September.

Comparisons with previous periods were not offered because the company is changing the dates of its accounting year. It said the sales were healthy and the company had made effective efforts to cut costs.

Sales and profits were boosted by the acquisition in May of Silicon Systems, a Californian maker of integrated circuits, which helped to raise the share of electronic materials and components in total sales from 63.6 to 66.9 per cent.

For the full year to March 1990, TDK forecasts sales of Y385bn and pre-tax profits of Y45bn.

Costs rise at Norsk Hydro Quebec plant

NORSK HYDRO, Norway's largest publicly quoted company, has increased the cost of its new magnesium plant in Canada to about C$600m (US$513m) from C$400m, writes Karen Fossli in Oslo.

Norsk Hydro, which began building the processing and production plant in mid-1987, said construction costs were higher than expected.

Notice of Early Redemption

U.S. $100,000,000
Total Raffinaderij Nederland N.V.
12⅞% Serial A Guaranteed Notes due 1992
with 100,000 Warrants to subscribe
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NOTICE IS HEREBY GIVEN to the Noteholders, that in accordance with Clause 5(b) of the Terms and Conditions of the Notes, the Company will redeem all of the outstanding 12⅞% Serial A Guaranteed Notes due 1992 at their principal amount on the next Interest Payment Date 3rd January, 1990, when interest on the Notes will cease to accrue. Payment of the principal and interest will be made on or after the Redemption Date at the specified office of any of the Paying Agents listed below against surrender of the Notes together with all unmatured coupons.
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Bankers Trust Company, London
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Agent Bank

VENTURE CAPITAL

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30th November 1989

For a full editorial synopsis and advertisement details, please contact:

Edward Macquisten

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or write to him at:

Number One, Southwark Bridge
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FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

The Chugoku Electric Power Company, Incorporated

Japanese Yen 20,000,000,000
Floating Rate Notes 1992

Notice is hereby given that the Rate of Interest for the six month period 20th November, 1989 to 21st May, 1990 has been fixed at 6¹⁵⁄16 per cent. The amount payable on 21st May, 1990 will be Yen 350,729 per Yen 10,000,000 Note.

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Morgan Guaranty Trust Company of New York
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(Incorporated in the Kingdom of Norway with limited liability)
US$100,000,000
Floating Rate Senior Notes Due May 1995
(of which US$75,000,000 has been issued as Initial Tranches)

Notice is hereby given that the Rate of Interest has been fixed at 10.5% and that the interest payable on the relevant Interest Payment Date May 21, 1990 against Coupon No. 10 in respect of US$10,000 nominal of the Notes will be US$530.83 and in respect of US$250,000 nominal Notes will be US$13,270.83.

November 20, 1989, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank
CITIBANK

TO HOLDERS OF
ORIENT FINANCE CO., LTD.

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5¼% Convertible Bonds due 1997

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THE DAIWA BANK, LIMITED
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US MONEY AND CREDIT

Funny noses come off the junk joke

IN THE middle 1980s, the US investing public fell prey to an elaborate practical joke.

This joke, which was acted out with an admirably straight face by many Wall Street bankers and several businessmen, involved the promise of very high yields on the debt securities of certain highly leveraged US corporations.

Who can hear the names of these securities without a chuckle of pleasure?

Listen to the names of these bonds, listen: Southland Corporation, 16¼ per cent senior subordinated discount notes of 1997; SCI Television, 15½ per cent senior extended reset notes due 1990; Griffin Resorts Inc. 13½ per cent senior secured reset notes due 1995.

These bonds, which were sold by Drexel Burnham Lambert but might just as easily have been devised by other investment banks, had a singular feature.

The eye-catching yield was merely optical, a trick of the light. But the risk was very real.

Last week, Southland, which owns a chain of convenience stores, warned its bondholders it would not be able to make the first payment on the 16½s in June 1991.

Less careful of bondholders' long-range financial planning, SCI Television and Griffin Resorts, which own television stations and casinos respectively, are the subject of involuntary bankruptcy petitions.

The casino bonds went into default just nine months after they were issued, which breaks some kind of record and speaks volumes for Drexel Burnham's sales skills.

The joke was not hard to stage. The inflation of the early 1980s had got the public and financial intermediaries onto a high-yield jag that left them dopey and slow.

Events moved with dizzying speed. Under the driving hand of Drexel Burnham's Mr Michael Milken, the market for high-yielding or "junk" corporate bonds swelled from $18.5bn in 1982 to $137bn by 1987 and some $200bn now.

Thrifts bought junk, pension plans bought junk, life insurance companies bought junk, mutual funds bought junk.

Drexel Burnham advertised on television saying it was making America great. Professors popped up to say that the yield spread over Treasuries more than compensated for the risk of default.

They produced statistics from the 1970s that showed conclusively that only a couple of percent of the bonds outstanding defaulted each year. In 1985 and 1986, people who bought junk bonds really did do quite well.

About that time, investment bankers started offering ever more exotic new instruments. There were pay-in-kind bonds, zero-coupon bonds, increasing-rate bonds, reset bonds.

These securities varied from complex to mind-boggling, but they had one thing in common. They paid no cash interest, which was handy if the issuer did not have any cash, which was invariably the case.

A list drawn up by Morgan Stanley shows more than $30bn in face value of these so-called "deferred interest" bonds are now trading.

Like all practical jokes, this one went on far too long. Kohlberg Kravis Roberts, which issued more deferred-interest junk than anybody else to create is industrial empire, finally gave the game away at the beginning of the month.

Hillsborough Holdings, a company Kohlberg Kravis set up to hold the Jim Walter housebuilding group it bought in 1988, told bondholders it was not going to abide by a reset arrangement on some $624m in notes.

Under this particular reset, the interest rates were due to be adjusted on December 2 so that the bonds would trade above par. Unfortunately, the Hillsborough bonds were so unpopular that people were talking openly of a new coupon of 20 per cent.

This is evidently not a price Kohlberg Kravis will pay for capital. By shirking the reset as if it were an equity dividend, Kohlberg Kravis confirmed what many people have suspected about these deferred interest junk bonds: they are not loans but quasi-equity which offer all the risks of ownership and none of the benefits.

All over the junk bond market, the funny noses are coming off. Columbia Savings & Loan, a near neighbour of Mr Milken's in the Beverly Hills of the mid-1980s, has just written off a big chunk of the $3bn in bonds it bought off him.

At Drexel Burnham's office nearby, staff was this week cut by 11 per cent. New issue volume is down, prices are depressed and liquidity is poor.

The public is pulling cash out of junk mutual funds at the rate of $1.5bn a month, according to Dalbar Financial Services in Boston.

As for the default rates, Standard & Poor's believes that just under 25 per cent of all original-issue high-yield bonds sold since 1982 had defaulted by last year.

People such as Mr Wilbur Ross, a banker at Rothschild well known for representing creditors in bankruptcy, regard the deferred interest sector as an accident waiting to happen.

He says: "I think the academics were just wrong. They thought that the relatively low default rates of recent years would continue into the age of exotic instruments.

Basically, any company with an exotic feature is trying to get out of it. They are like time bombs, these resets and PIKs."

Ms Gail Hessol, a managing director in S & P's high-yield department, is not sanguine: "In a bad year, we can now expect $15-20bn or about 10 per cent to default."

The Justice Department wants to send Mr Milken to jail if it can. It alleges he exercised a massive fraud. Drexel Burnham has paid a very large sum to the Securities and Exchange Commission so it can stay in business.

But the public was not forced to buy these ridiculous securities. The bond prospectuses bristled with warnings. S & P and Moody's monotonously rated them as bankruptcy bait.

Years from now, on the lawns of Westchester County estates or in the yards of minimum-security correctional facilities, old men will think back to this era with a sophomoric thrill, though tinged with the melancholy of passing time and the consciousness of fading power: Seaman Furniture's 15s of 1999 and Western Union's 19¼s of 1992 and Revco's 13⅞s of 1994 and . . .

James Buchan

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.38	8.38	8.62	9.92	8.00
Three-month Treasury bills	7.92	7.96	7.16	9.03	7.15
Six-month Treasury bills	7.83	7.97	7.41	9.03	7.37
Three-month prime CDs	8.35	8.45	8.30	10.35	8.18
30-day Commercial Paper	8.35	8.42	8.62	9.95	8.05
90-day Commercial Paper	8.20	8.30	8.52	10.05	8.14

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	101¼	+½	7.85	7.86	7.75
20-year Treasury	112	-⅛	8.03	7.97	7.94
30-year Treasury	102¼	-½	7.93	7.89	7.82

Source: Salomon Bros (estimates).

Money supply: In the week ended November 6, seasonally adjusted M1 rose $1.9bn to $788.3bn.

NRI TOKYO BOND INDEX

December 1983 = 100	16/11/89	Average yield (%)	Last week	12 wks ago	26 wks ago
		PERFORMANCE INDEX			
Overall	147.79	5.87	147.63	150.00	148.14
Government Bonds	147.80	5.61	147.46	150.36	148.41
Municipal Bonds	149.05	6.09	148.90	151.68	149.96
Govt.-guaranteed Bonds	150.27	6.18	150.14	152.64	150.98
Bank Debentures	141.96	6.04	142.15	143.65	141.87
Corporate Bonds	150.80	5.99	150.65	152.14	150.26
Yen-denom. Foreign Bonds	156.64	6.35	156.46	156.31	154.10
Government 10-year†	5.40		5.43	5.01	5.06

† Estimated par yield

Source: Nomura Research Institute

UK GILTS

Salutary reminder of inflation risk

A RISE in the underlying rate of inflation to 6.1 per cent and its highest level for 6½ years and some bearish labour market figures left gilt-edged prices lower last week and the market with a salutary reminder of the inflation risk still present.

The inflation figures took the markets by surprise and more worryingly the Treasury and the Bank as well. The authorities had thought the underlying rate would have remained broadly unchanged.

The previous Chancellor's comment that inflation would not fall in a straight line was a reference to the all-items reading of the RPI which, after the increase in base rates last month, was expected to rise before falling again because mortgage interest rates were expected to be raised.

Friday's retail prices index data also served to reinforce the unfavourable picture for earnings and costs that came through in Thursday's labour market data. With Ford and Vauxhall still to settle (offers of 9.5 per cent and 9.7 per cent respectively have been made, although Vauxhall workers say their offer is worth only 7 per cent) the gilt-edged market was seen as remaining vulnerable to bad news on the pay front.

Sterling's response to the inflation numbers was understandable and was probably responsible for as much of the fall in gilts as were the raw inflation numbers. The pound has behaved itself remarkably well since it fell after Mr Lawson's resignation. But Friday's behaviour showed Mr Major that it can not be guaranteed; Thursday's trade figures should provide the next test.

The Autumn Statement was regarded by many in the gilt market as an unexciting event. The market absorbed the extra £5.5bn of spending for 1990/91 silently and took the Chancellor's forecasts for the economy largely at face value.

Mr Major was seen as being cautious and probably too so. If a consensus emerged from the analytical fraternity it was that the Government stands a better than even chance of bettering its key forecasts.

It may well achieve lower headline inflation in the fourth quarter of next year than the 5.75 per cent forecast, and a lower current account deficit than the £15bn forecast. Growth too could be better than the 0.75 per cent pencilled in for the non-oil economy.

The revision downwards of the Treasury's estimate for the 1989/90 public sector debt repayment (PSDR) puts to rest the Bank of England's buy-in of gilt-edged stock for the remainder of the financial year. The Bank was largely absent from the market on Friday when it fell by more than half a point; six months ago this would have represented an ideal buying opportunity for the authorities.

The downward revision to the forecast for the PSDR also throws into doubt whether the Bank will hold a reverse gilt auction in the New Year. It gave not guarantee to do so when it conducted the last auction in August and in the circumstances it looks much less likely that it will do so.

But while "cautious," "boring" and "dull" were the adjectives used by many to describe the Autumn Statement – the Treasury by contrast described it as "commonsense economics" – the Chancellor's performance was astute. He has left himself a lot of room to manoeuvre and it now emerges that the Treasury is likely to conduct a full-scale review of economic policy in the run up to the Budget next March.

Mr Major is the first Chancellor to assume office midway through a parliamentary term since Labour's Mr Roy Jenkins in November 1967. He carries with him none of Mr Lawson's intellectual baggage.

(Mr Major is less sanguine about the current account deficit and has not, like his predecessor, referred to it as simply a private sector phenomena. He has drawn short of stimulating competitiveness by exhortation as the Prime Minister did a week ago at Guildhall.)

Mr Major has talked about the objectives of policy – to get inflation down – but he has made few comments about how to do that, except for general comments on interest rates and a more vague commitment to a strong pound.

Treasury officials say that since Mr Major became Chancellor three weeks ago he has had not had time to consider the Budget. He may not have had time but by his actions he has left the fiscal slate clean. What could he do?

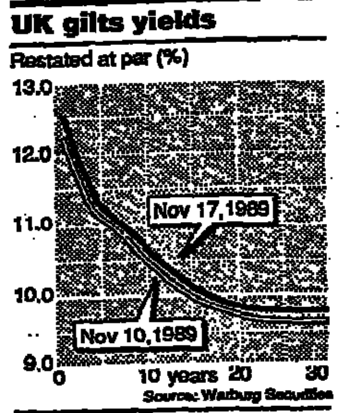
That very much depends on the relative weighting of the need to secure victory at the next election and the state of the economy at the time the Budget judgment is struck. In terms of fiscal policy Mr Major could opt for a tighter fiscal stance so as to allow some easing on the monetary front.

Of equal interest for the gilt market will be the changes he might announce to the operation of monetary policy. A review of the targets and instruments of monetary policy might produce a return to over-funding and broad money targeting. Some form of credit control, dressed up as increased prudential requirements for banks and building societies, could also be considered.

Simon Holberton

UK gilts yields

Restated at par (%)



Source: Warburg Securities

FT/AIBD INTERNATIONAL BOND SERVICE

[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US Dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn – current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem – percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem – exercise premium over current share price. Bond warrant ex yld – exercise yield at current warrant price. Closing prices on NOVEMBER 17

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This announcement appears as a matter of record only

October, 1989

Unilever N.V.

ECU 100,000,000

8⅞ per cent. Notes due 1992

Issue Price 101.56 per cent.

Istituto Bancario San Paolo di Torino
Amsterdam-Rotterdam Bank N.V.

Algemene Bank Nederland N.V.
Bankers Trust International Limited
BNP Capital Markets Limited
Crédit Lyonnais
Kredietbank International Group
Paribas Capital Markets Group
UBS Phillips & Drew Securities Limited
Westdeutsche Landesbank Girozentrale

Bank Brussel Lambert N.V.
Compagnie Monégasque de Banque
Crédit Communal de Belgique S.A.
Gemeentekrediet van België N.V.
Credito Italiano
Fuji International Finance Limited
Generale Bank
Goldman Sachs International Limited
IBJ International Limited
Bank Mees & Hope NV
Mitsubishi Finance International PLC
Nomura International
Swiss Cantobank Securities Limited
S.G. Warburg Securities
Yasuda Trust Europe Limited

SANPAOLO

UK COMPANY NEWS

Dominion may call in the SFO

By Clay Harris

DOMINION INTERNATIONAL, the financial services and property company, said yesterday that it had not asked the Serious Fraud Office to investigate its affairs, but it did not rule out doing so after its future was secured.

The group's shares have been suspended for nearly two months.

Mr Carl Openshaw, managing director, said Dominion was concentrating all its efforts on finding a solution to its financial crisis.

Yesterday morning Dominion accountants were working at its Wimbledon head office preparing cash-flow forecasts for the company's next talks with banks led by Royal Bank of Scotland.

Dominion's board has not contacted the Serious Fraud Office or even discussed that possibility. Mr Openshaw said, however: "There may be matters to mention in due course."

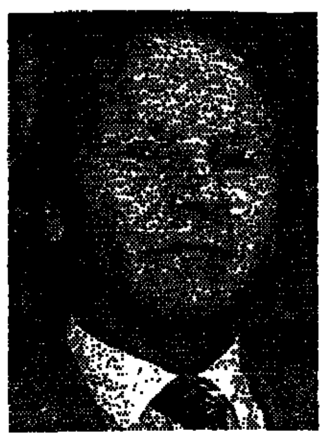
If the SFO is already considering a probe into Dominion, as reported yesterday, it is likely that unofficial approaches have come from within the company or from other sources familiar with its affairs.

Dominion's shares were suspended on September 21. Mr Openshaw, who was appointed in July, subsequently announced that his review of the company had revealed a financial position "much worse" than at its March 31 year end.

Dominion was forced to halt payments of its final dividend because it had no distributable reserves. It also signalled that it planned to make "substantial provisions".

A fuller statement is expected shortly.

Dominion was run for 15 years by Mr Max Lewinsohn,



Max Lewinsohn – declined to discuss Dominion's affairs

who transformed the shell of the former Dundonian Crematorium into a diversified investor in activities such as Spanish and US property, film insurance, computer leasing and a proposed automated futures exchange.

Mr Lewinsohn, most recently deputy chairman of Dominion, resigned from the board in August just before an annual meeting at which directors were heavily criticised by shareholders, including Mr Buster Mottram, the former England tennis player.

Other shareholders who made known their dissatisfaction included Mr Roy Richardson and his twin, Don, the West Midlands property developers.

Mr Lewinsohn has declined to discuss Dominion's affairs since leaving the company and could not be contacted yesterday.

Lord Barnett, chairman, and Mr John Clarke resigned as non executive directors of Dominion last week.

IEP stake in Mount Charlotte totals 27%

By Andrew Bolger

IEP SECURITIES, the UK investment vehicle of Sir Ron Brierley, has increased to 27 per cent its stake in Mount Charlotte Investments, Britain's second biggest hotels group.

Mount Charlotte said it had acceptances representing 81 per cent of its one-for-three rights issue at 72p each and added that the rump of the issue had been placed in the market at 72.4p, allowing IEP to increase its stake. The shares closed on Friday at 73½, up ½p.

IEP was offered a seat on Mount Charlotte's board on November 8 after it announced that it had raised its stake to 20.7 per cent. Mount Charlotte said it still viewed IEP as a friendly investor.

Mount Charlotte made the rights issue to help towards funding its acquisition in September of Scottish and Newcastle's 33-strong Thistle Hotels chain for £645m.

Meggitt to claim victory or walk away from USH deal

By Andrew Bolger

MEGGITT will today decide whether to claim victory over United Scientific Holdings in its £104m takeover bid for the troubled defence contractor – or to walk away from the deal.

By November 10 Meggitt had already had acceptances representing 81.49 per cent of USH's ordinary shares.

It will reveal today how many more shareholders had accepted its final offer by 3pm on Friday.

Since today is the 60th day since the bid was launched Meggitt must make the offer unconditional or let it lapse.

However, Meggitt has been insisting that it would not make its offer unconditional as to acceptances unless the USH board provided it with more financial information.

USH has offered Meggitt limited balance sheet information and talks between the two sides have continued over the week end.

But it is not clear whether USH has provided enough detail to allay Meggitt's fears.

Meggitt is concerned that the doubling to £17m of provisions made by USH for losses at its Avimo-Taunton electro-optics plant in Somerset.

It was also "deeply alarmed" by the disclosure that USH was liable for up to $2.46m (£1.56m) for severance payments to directors of Optic-Electronic Corporation, its US subsidiary.

USH countered that it was concerned that if Meggitt was to receive such detailed financial information and then walked away fom the transaction, "the unjustified innuendo which would automatically ensue with regard to finances and prospects of USH could do untold damage to USH business."

On Friday Meggitt's shares closed unchanged at 90p. At that price, its partial cash alternative values each USH share at 144p. USH shares closed at 114p, up 1p.

BAT hearings postponed

By Nikki Tait

Hearings ahead of the US insurance commissioners of the applications by Axa-Midi Assurances and Hoylake Investments to take over BAT Industries' US insurance subsidiary Farmers Group, have been postponed in the wake of the recent illness of Mr Claude Bébéar, Axa's chief executive.

The hearings in Illinois were due to start today. There will still be a one-day session early this week, but the hearings will then be recessed and start again on November 27. The hearings in Idaho, due to start on November 27, have also been postponed and are now likely to start on December 4.

Candy confirms Lec shareholding

Candy Elettrodomestici yesterday confirmed that its stake in Lec Refrigeration had been increased and now stood at 14.57 per cent. Candy has made clear that the stake is not the prelude to a full bid, but Lec says it welcomes the shareholder and "looks forward to investigating the potential opportunities afforded by joint purchasing arrangements."

KCA Drilling profit warning

By Jane Fuller

KCA DRILLING, the oil services company, has issued a profit warning along with static interim figures.

Sir Monty Finniston, chairman, said that because the drilling rigs and equipment used on the Beryl platforms, in the North Sea, had been sold to Mobil, the contract was continuing at reduced rates.

"Consequently the operating results for the second half will be significantly lower than for the first half."

In the six months to June 30, KCA made a pre-tax profit of £1.57m (£1.59m) on turnover up 8 per cent to £12.83m. Because of the equipment sale, the tax provision more than doubled to £308,000 and earnings per share fell to 1.58p from 1.82p.

Mr Paul Bews, finance director, said it was unusual for a contract to include equipment as well as expertise and Mobil had exercised its option to buy on June 28. There was now hardly any debt and a fair amount of cash.

The company has contracts on a total of seven North Sea platforms and a land operation in Libya.

In the last full year its pre-tax profit declined from £3.44m to £2.84m on turnover that increased 7 per cent to £26.49m.

Eagle Trust chief details problems

Mr David James of Eagle Trust has written to shareholders in the engineering and film camera group, which is being investigated by the Serious Fraud Office, laying out in more detail some of the problems found since becoming chairman in September.

In the circular, Mr James says that the company lost £61m before the new board was installed. He highlights four "problem areas". These are Eagle Express, the parcels distribution company which went into liquidation; Laforza, the project to build a luxury vehicle for the US market; MCP Building Supplies, and the Owners Abroad stake.

Redland to cut gearing via pref placing in US

By Clay Harris

REDLAND, the building materials group, is to issue $150m in variable dividend dollar-denominated preference shares. It joins BET as a rare UK entrant to this $25bn US market.

The issue will reduce Redland's gearing from 50 per cent to 30 per cent, but dilute earnings by about one-half of 1 per cent.

This reflects the shares' higher after-tax cost of about 1 percentage point over US dollar commercial paper.

Mr Gerald Corbett, finance director, said the issue would reduce Redland's exposure to currency fluctuations.

The shares will initially be placed with a limited number of US investors. The dividend will be reset periodically by auction, at intervals to be chosen by Redland of between 28 days and 10 years.

The preference shares are perpetual and can be redeemed only at Redland's option. If an auction fails, as Mr Corbett said only four out of 4,000 have ever done, the holders of the shares at the time retain them.

Hickson pays $25m for DRI chemical side

By Clare Pearson

Hickson, the chemical, timber protection and merchant distributor group, is paying $25m (£15.8m) in cash for the chemical products division of DRI, a US chemicals concern.

The Virginia-based division made profits before interest and tax of $2.5m on sales of $14.5m for the 1988 year. Net assets are about $13.5m.

Chemicals activities, enhanced by acquisitions, accounted for £14.1m out of Hickson's operating profits of £20.43m in the six months to end-June.

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

Singapore SESDAQ Fund (Section: Finanace, Land)

Norfolk House purchases Land Option for £4m

By Peter Berlin

NORFOLK HOUSE, the USM-quoted developer, has bought Land Option, developer, for £4m. The payment is made up of £1.5m in cash and £2.5m in new ordinary stock.

Land Option owns, holds options over or has interests in 150 acres of roadside development covering nine sites. It also owns two petrol stations. The sites are spread from Teesside to Bedfordshire. It also has £900,000 in cash on deposit.

Land Option made pre-tax profits of £1.03m in the year to September.

Mr Thomas Harrison, chairman and chief executive of Norfolk House, said that now some of the froth has come off the property market there are some good bargains to be had.

He added that Land Option's business was very similar to Norfolk House, taking options on land and dealing with the planning issues to produce development sites, usually for service developments – petrol stations, hotels, restaurants, near new roads.

Mr Harrison concluded that the current Land Option management would remain in place as part of a five-year agreement.

BM expands in the UK with £12m acquisition

By Jane Fuller

BM GROUP, the maker and distributor of construction and other industrial equipment, is buying Kass, an industrial group based in South Humberside, for £12.25m.

The purchase, from the two founders of the private company, has been financed by the placing of 2.66m new BM ordinary shares, at 460p each, which have been taken up by institutional investors. This represents about 7 per cent of the enlarged share capital.

Kass, which made a pre-tax profit of £2.34m on turnover of £23.9m in the year to February 28, comprises seven operating companies which will be distributed between BM's building services, construction equipment and technical divisions.

An example of the fit is that the Kass plant sales, hire and servicing company has depots in an area where BM does not.

On the other hand, the move takes BM, which has a turnover of £193.5m, into house building for the first time. Kass Construction (Yorkshire) builds 40 to 50 homes a year in the £80,000 to £200,000 bracket.

Mr Roger Shute, chairman, stressed that BM was not going into volume house building. The expertise which had been bought in would help with the development of 600 acres of land owned by the company.

As with previous purchases, he felt the acquisition's performance could be enhanced.

ML Labs loss rises

ML Laboratories, which came to the Third Market in 1987, ran up a loss of £91,000 pre-tax for the six months to March 31. This is compared with a deficit of £41,000 for the 14 months to end-September 1988.

The directors said the benefits flowing from controlling production had exceeded initial expectations.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims- Alan Paul, BAA, BET, Babcock International, Broad Street, Bulgin (AF), CML Microsystems, EMAP, Normans, Stirling, Strategem, Vinten, Vista Entertainments, Volex, Walker & Staff, Wilshaw.

Finals- Anglo Irish Bank, Diploma, F & C Eurotrust, Glasgow Income Trust.

FUTURE DATES

Interims-

Control Techniques	Nov. 21
Graham Wood	Dec. 7
NEC Corporation	Nov. 28
NSM	Nov. 28
Speyhawk	Dec. 14

Finals-

Leeds Group	Nov. 28
Morland & Company	Nov. 23
Warringtons	Dec. 4

This notice is issued in compliance with the Regulations of the Council of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("The Stock Exchange"). It does not constitute an offer or invitation to subscribe for or purchase shares. Application has been made to the Council of The Stock Exchange for the grant of permission to deal in the undermentioned securities of Baris Holdings PLC (the "Company") in the Unlisted Securities Market. It is emphasised that no application has been made for these securities to be admitted to listing. It is expected that dealings will commence on 23 November 1989.

BARIS

Holdings PLC

(Incorporated under the Companies Act 1985. Registered in England No. 2279581)

Placing by

COUNTY NATWEST

of

2,676,057 Ordinary shares of 10p each

at 142p per share

Share Capital

Authorised		Issued and now being issued fully paid
£1,000,000	Ordinary shares of 10p each	£710,423

The Ordinary shares now being placed rank in full for all dividends and other distributions hereafter declared, paid or made on the Ordinary share capital of the Company.

Baris Holdings PLC provides specialist services to the commercial, industrial, leisure and retail sectors of the construction industry. It designs, supplies and installs passive fire protection, dry lining, fire barrier and thermal insulation systems.

In accordance with the requirements of the Council of The Stock Exchange, County NatWest Wood Mackenzie & Co. Limited and Charterhouse Tilney have placed 2,007,042 and 669,015 Ordinary shares respectively.

Particulars of the Company are available through the Extel Unlisted Securities Market Service and copies may be obtained during normal business hours on any weekday (Saturdays and public holidays excepted) up to and including 4 December 1989 from:

Baris Holdings PLC, Baris House, Nunn Brook Road, County Estate, Huthwaite, Nottinghamshire NG17 2HU

County NatWest Limited, Drapers Gardens, 12 Throgmorton Avenue, London EC2P 2ES

and Lion House, 41 York Place, Leeds LS1 2ED

and (for collection only) during normal business hours on 21 and 22 November 1989 from the Company Announcements Office, The International Stock Exchange, 46 Finsbury Square, London EC2A 1DD.

20 November 1989

SONY

BRIDGEND

Management Today's choice for Best Factory 1989.

IDC

Sony's choice for yet another design and construct contract.

The 1989 Management Today/A T Kearney Best Factories award has been won by Sony UK for its Bridgend television manufacturing plant.

IDC is proud to have designed and constructed the Trinitron Tube Manufacturing Facility and subsequently extended it on three occasions over the last eight years to enable Sony to meet the ever increasing demand for its products.

The latest phase of the Bridgend expansion to be undertaken by IDC is the £11 million extension to the facilities due to be finished in Spring 1990, and all while the existing factory continues full production.

Sony UK is just one of the many companies to take advantage of IDC's unique integrated design, construction and engineering approach: our client list includes such names as Beecham, Black and Decker, British Aerospace, Cadbury-Schweppes, Ciba-Geigy, Colman's, Gallaher, ICI, National Westminster Bank, Ricoh and UB Brands to name just a few.

If you would like to know more, contact Mike Stanton, Sales Director.

IDC — DESIGN • CONSTRUCT • ENGINEER

YOUR PROJECT • OUR STRENGTH

IDC Limited, Stratford-upon-Avon, Warwickshire. CV37 9NJ
Tel: 0789 204288 Fax: 0789 299135

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GRANVILLE

SPONSORED SECURITIES

Capitalisation £000's	Company	Price	Change on week	Gross div (p)	Yield %	P/E
8005	Ass. Brit. Ind. Ord	337	0	10.3	3.1	9.1
650	Armitage and Rhodes	26	-1			
110422	Bardon Group (SE)	161	+1	4.3	2.7	15.6
17976	Bardon Group Cv. Pref. (SE)	103	+1	6.7	6.5	-
4597	Bray Technologies	76	-1	5.9	7.8	6.7
	Bremhill Conv Pref	103	-1	11.0	10.7	-
	Bremhill 8¼ New C.C.R.P	103	0	11.0	10.7	-
1148	CCL Group Ordinary	302	+5	14.7	4.9	3.7
2163	CCL Group 11% Conv Pref	173	0	14.7	8.5	-
16740	Carbo Plc (SE)	210	0	7.6	3.6	12.4
770	Carbo 7.5% Pref (SE)	110	0	10.3	9.4	-
-	Magnet Gp Non Voting A Cnr*	1.5sus	0	-	-	-
-	Magnet Gp Non Voting B Cnr*	0.75sus	0	-	-	-
9558	Isis Group	120	0	8.0	6.7	6.9
23189	Jackson Group (SE)	108	0	3.6	3.3	12.6
22223	Multihouse N.V.(AmstSE)	285	+5	-	-	-
1581	Robert Jenkins	155	0	10.0	6.5	5.6
17904	Scruttons	373	0	18.7	4.0	9.9
9242	Torday & Carlisle	299	0	9.3	3.1	10.4
	Torday & Carlisle Conv Pref	104	-3	10.7	10.3	-
3442	Trevian Holdings (USM)	80	0	2.7	3.4	8.6
-	Unistrut Europe Conv Pref	151	+1	9.3	6.2	-
5940	Veterinary Drug Co. Ltd	360	-3	22.0	6.1	9.4
7168	W. S. Yeates	320	0	16.2	5.1	26.7

Securities designated (SE) and (USM) are dealt in subject to the rules and regulations of The ISE. Other securities listed above are dealt in subject to the rules of TSA
These securities are dealt in strictly on a matched bargain basis. Neither Granville & Co. Limited nor Granville Davies Limited are market makers in these securities.
* These securities are dealt on a restricted basis. Further details available

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Raiffeisen Zentralbank Österreich Aktiengesellschaft

RZB – Austria

(until October 2nd, 1989: Genossenschaftliche Zentralbank Aktiengesellschaft)

U.S. $100,000,000

Perpetual Floating Rate Subordinated Notes

For the six months 16th November, 1989 to 16th May, 1990 the Notes will carry an interest rate of 8⅝% per annum with a coupon amount of U.S. $216.82 per U.S. $5,000 Note, and U.S. $2,168.23 per U.S. $50,000 Note, payable on 16th May, 1990.

Bankers Trust Company, London — Agent Bank

REPUBLIC OF ICELAND

U.S.$100,000,000 Floating Rate Notes Due 1994

Notice is hereby given that the rate of interest has been fixed at 8.4% and that the interest payable on the relevant interest payment date, May 21, 1990 against Coupon No. 2 in respect of US$10,000 nominal of the notes will be US$424.67.

November 20, 1989, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank — CITIBANK

THE TOKYO ELECTRIC POWER COMPANY, INCORPORATED

Japanese Yen 60,000,000,000 Floating Rate Notes Due 1992

In accordance with the provisions of the Notes notice is hereby given that for the next six month period, 20th November, 1989 to but excluding, 21st May, 1990 the Notes will carry an interest rate of 5.65 per cent per annum. The Coupon will be Japanese Yen 281,726 on the Notes of Japanese Yen 10,000,000. The relevant interest payment date will be 21st May, 1990.

Mitsui Finance Trust International Limited (Agent Bank)

First Union Corporation

U.S. $150,000,000 Floating Rate Notes due 1996

The rate of interest per annum on First Union Corporation's U.S. $150,000,000 Floating Rate Notes due 1996 for the interest period beginning 16th November, 1989 and ending 16th February, 1990, the next interest payment date, will be 16th February, 1990. The amount of interest payable for such interest period on each $10,000 principal amount of the Notes will be $222.01.

Bankers Trust Company, London. Agent Bank

CIVAS 5 LIMITED

Yen 9,000,000,000 Secured Floating Rate Notes due 1994

Interest Rate 7.0025% p.a. Interest Period November 20, 1989 to May 21, 1990. Interest Payable per Yen 1,000,000 Note Yen 35,402.

November 20, 1989, London
By Citibank, N.A., (CSSI Dept.), Agent Bank

FINANCIAL TIMES STOCK INDICES

	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13	Nov 10	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs.	83.71	84.12	84.29	84.33	84.35	84.47	89.29	83.71	127.4	49.18
Fixed Interest	93.33	93.54	93.58	93.57	93.55	93.78	99.59	93.20	105.4	50.53
Ordinary	1769.3	1759.2	1759.4	1770.8	1771.4	1773.0	2008.6	1447.8	2008.6	49.4
Gold Mines	265.6	264.6	273.2	271.1	262.4	259.3	273.2	154.7	734.7	43.5
FT-Act All Share	1115.15	1110.00	1107.17	1112.56	1112.75	1114.66	1225.80	921.22	1238.57	61.92
FT-SE 100	2221.4	2209.8	2203.4	2214.7	2213.2	2216.7	2426.0	1782.8	2443.4	986.9

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Costain Dow Mac

CONSTRUCTION CONTRACTS

Over £44m orders for Lovell

THE LOVELL GROUP has been awarded contracts together worth about £44.3m.

These include an £11.3m order to build 80 luxury flats in Eastcliffe, Bournemouth, for Manway Homes. In the 11-storey building, which will have a brick facade, each flat will have two balconies to the east and west giving panoramic sea views. The two- and three-bedroom flats and eight penthouse suites will be fitted out by Lovell. There will be some decorative brickwork and, at podium level, brick arches. The car park will be beneath the flats at lower ground level, with additional parking outside, close to the porter's lodge. Landscaped gardens will be sited among mature trees.

Two three-storey office blocks, providing 47,500 sq ft, are being built at Bracknell, Berkshire, under a £5.9m contract for ARC Properties. The offices will be of reinforced concrete with brick cladding, and reconstituted Bath stone bands at first floor and eaves level.

Bullock Construction, a group company specialising in refurbishment, has been awarded contracts worth over £7m. Local authority contracts, at over £6m, involve repairs and refurbishment of some 344 homes.

Lovell Partnership Homes has secured nearly £20m orders. The largest is a design-and-build project of 106 homes for Slough Borough Council, at £4.3m. Further design-and-build schemes are for 61 homes at Harlow (£2.3m), and 45 homes in Darby (£1.5m), both for North Housing. Contracts for other schemes, totalling some £15.3m, include 218 homes for Wokingham, West Somerset and North Warwickshire Councils, and Coastal Counties Housing Association.

Public and private work for Wimpey

WIMPEY CONSTRUCTION has been awarded contracts totalling nearly £17m in the public and private sectors.

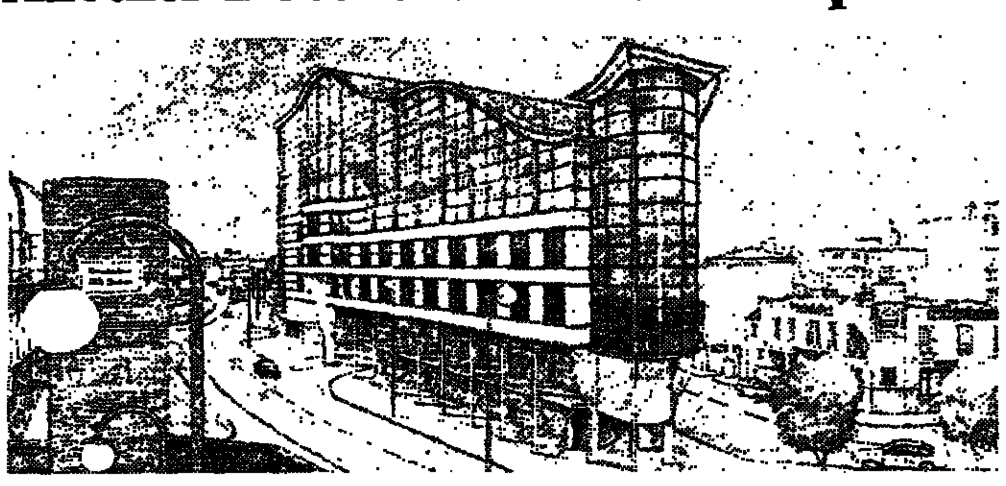
In Solihull work has started on a design-and-build contract for the City Technology College in Cooks Lane, Kinghurst, to extend the development by some 4,600 sq metres and to refurbish 600 sq metres. The new building will comprise a steel-framed and clad sports hall as well as a steel-framed and clad two-storey teaching block with concrete grid floor. Included is a single-storey steel-frame brick-clad administration and information centre. The building refurbishment work involves a kitchen and gymnasium. This scheme, valued at £3.44m, is the first design and build contract awarded for City Technology Colleges that is part-financed by the Department of Education and Science and private industry. The project is due for completion in July next year.

Birmingham City Council has appointed the company the main contractor on the £1.86m refurbishment of Rea and Tevlot Towers in Mossborough Crescent. Due to be completed next August, work comprises external and internal repairs to the 16-storey blocks involving scaffolding for the full height and perimeter of each block.

Wimpey has started work at Monkspath, Solihull, on the four-storey headquarters of Foster Brothers Clothing. The £7.1m development will be steel-framed, with facing brick and blockwork cavity walls. Accommodation will be open-plan with suspended ceilings. Work includes landscaping, and is due for completion in February 1991.

Work has started on Block C of Wimpey's Mansfield Road office development in Huntingdon Street, Nottingham. This phase, costing £3.08m, covers two units providing some 28,000 sq ft office space. Construction is of load-bearing masonry walls on a steel frame, with elevations of facing brickwork and cast-stone. Completion is due in September next year.

Another Docklands office development



ALFRED McALPINE MANAGEMENT is to design and construct an office block in London's Docklands for Clinton-Scott Holdings. With a contract value of £15m, the project is funded by Chancery Bank and Manufacturers Hanover Trust and backed by Eagle Star. With the exception of Canary Wharf, the scheme will occupy the only freehold site in the Enterprise Zone. Known as The Triangle, it will be a steel-framed structure with an undulating roofline, providing over 90,000 sq ft office and 12,000 sq ft retail space. Construction starts in December with completion in August 1991.

Refurbishing Edinburgh shopping centre

LAING has won over £35m worth of contracts.

In Edinburgh, the company will refurbish the St James shopping centre under a £13.8m contract awarded by CIN Properties.

The project starts in January, and involves refurbishment of the centre plus provision of plant rooms, a management suite, and two food courts at deck level. The contract includes partial street re-alignments, with completion set for October, 1991.

In Glasgow, Lesser Land and London & Clydeside have appointed Laing for an office development in West Regent Street. The contract, worth about £1.5m, involves partial demolition of an old building, and construction of a new office block.

B & Q has awarded a contract (£720,000) for alterations and refurbishment of a DIY store at Coatbridge.

Laing has started on a £360,000 contract for a shopping redevelopment for Dunedin Property in Stirling, and is also set to start on a £753,000 contract for phase one of the Greenock town centre redevelopment for Ossory Estates.

Ormskirk Hospital

Laing has won an £18.9m contract for work at Ormskirk Hospital for North Western Regional Health Authority to build an extension which will house 187 beds, five operating theatres, an X-ray department, plus accident and emergency facilities.

Work starts at the end of the month and will take three years to complete. The project involves constructing a four-storey hospital "street" with three two- to three-storey cross-shaped buildings of nucleus design, linked to it on one side. There will also be a three-storey service complex.

IN BRIEF...

HAYMILLS (CONTRACTORS) has secured a contract from the Property Services Agency to build the Woolwich special courthouse. Worth about £19m, the courthouse will provide needed new accommodation for the Lord Chancellor's Department. The project comprises six Crown Courts and one Magistrates Court and will be able to accommodate special secure trials. The work will take about 30 months.

★ ★ ★

Parts of Butlin's Holiday Worlds at Pwllheli, Skegness and Minehead are being redeveloped this winter by EMMS (BEDFORD) under a £10.8m contract won by the Daventry-based contractor. A total of 585 two and three-bedroom apartments in 51 blocks will be built at the three centres. They will be of timber frame construction with cement particle board and timber cladding, erected using power nailers. The work, which includes decoration and landscaping, will be completed in 24 weeks. Butlin's is part of The Rank Organisation.

★ ★ ★

A.D.T. Auctions, has awarded the AGATE GROUP, based at Heanor, Derbyshire, a £6m design and build contract for an auction centre at Newport, Gwent. On a 25 acre site, the centre will comprise a space-deck canopy to the viewing area with associated single-storey auction halls, two-storey offices and restaurant. The contract will include construction of a single-storey valeting unit, heavy goods vehicle building, entry control facility and associated external works.

★ ★ ★

HILTI CONTRACTS has been awarded a £1.3m contract by Birmingham City Council for repair and refurbishment of two 21-storey tower blocks at Castle Bromwich. The work includes support anchors and remedial ties resin-bonded into the floor beams. The flats will remain occupied.

★ ★ ★

Among orders won by JOHN LAING CONSTRUCTION is a £2.2m contract for a four-storey office block at the Royal National Lifeboat Institute site in West Quay Road, Poole. Completion is scheduled for February 1991.

★ ★ ★

R. MANSELL has won a £1m order to build a helideck on the roof of London Hospital, Whitechapel, as part of a helicopter emergency medical service. It is part of a Government scheme for several London hospitals so that major accident victims can be transferred from the incident to the operating/trauma treatment units in 16 minutes. Work is to be completed in 27 weeks. The Daily Express is funding the helicopter and crew/paramedics for three years.

ANNOUNCEMENTS

Bridge Information Systems, Inc.

is pleased to announce the appointment of

Rory Forrester

as

Senior Consultant

European Operations

London

2, Lanark Square

Limeharbour

London E14 9RE

01-538 5050

BRIDGE

JAMAICA

The Financial Times proposes to publish a Survey on the above on

8TH FEBRUARY 1990

For a full editorial synopsis and advertisement details, please contact:

Nigel Bicknell

on 01-873 3000

or write to him at:

Number One, Southwark Bridge

London SE1 9HL.

FINANCIAL TIMES

RESIDENTIAL PROPERTY

Chelsea SW3

BARGAIN

Owners must sell this week. View immediately freehold, terraced, 4 storey in tranquil part of Chelsea. Small rear patio/garden. Would convert to 3/4 beds, 2 baths, dble recep, din rm, kit and poss. roof gdn. Price £385,000 ono for quick sale. Ideal for developer or owner occupier. Building estimates available.

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PERSONAL

IN THEIR EIGHTIES, Mr and Mrs W live on a fixed pension. Because his professional body has no benevolent fund, P C A C gives help so that they can afford to stay on in their home as long as they can physically manage. HELP P C A C to assist professional men and women who have given a lifetime of service. Make a donation or leave a legacy to Professional Classes Aid Council, 10 St Christopher's Place, London, W1M 6HY.

ART GALLERIES

MARTYN GREGORY: Early English Watercolours. Nov.1-24 10-6. Sats 10-1. 34 Bury Street, St. James's, London SW1 01 839 3731.

ROY MILES GALLERY - Good Buys Russian Art from £500 for the new collector. 29 Bruton St, W1. 01-495 4747. Mon-Fri 10-6: Sats 10-1.

LEGER, 13 Old Bond St., W1, JULIAN BARROW, Recent Paintings, Mon-Fri, 9.30 - 5.30.

DIARY DATES

Trade fairs and exhibitions: UK

Current
Business to Business Exhibition (01-729 0677) (until November 22)
G-Mex Centre, Manchester

CBI National Conference and Exhibition (01-379 7400) (until November 21)
Exhibition Centre, Harrogate

November 24-26
Computer Shopper Show (0625 879970)
Alexandra Palace, London

November 26-December 2
International Building and Construction Exhibition – INTERBUILD (01-486 1951)
NEC, Birmingham

November 28-December 1
World Travel Market (01-948 9900)
Olympia

December 3-7
Royal Smithfield Show and Agricultural Machinery Exhibition (01-235 0315)
Earls Court

December 5-7
International Technology in Mining Symposium and Exhibition (0923 778311)
Harrogate

December 6-7
Energy, Safety, Security and Handling Exhibition (0296 434381)
County Cricket Ground, Birmingham

December 21-24
Late Late Christmas Shopping Show (01-378 7131)
Olympia

January 4-14
London International Boat Show (0932 854511)
Earls Court

January 10-12
Supercomputing Exhibition and Conference - SUPERCOMPUTING EUROPE (01-948 5166)
Olympia

January 13-18
International Toy Fair (01-226 6653)
Harrogate

Overseas exhibitions

Current
Hotel, Restaurant, Cafeteria and Commodities Equipment Exhibition - HORECA EXPO (01-639 7265) (until November 24)
Ghent

November 20-24
International Maritime Exhibition - EXPOSHIP RIOMAR (0206 45121)
Rio de Janeiro

November 21-25
Furniture and Woodworking Machinery Show (01-379 0765)
Taipei

November 27-30
Money Exhibition (01-930 3881)
Dubai

November 30-December 8
Autumn Fair (01-486 1951)
Bahrain

November 28-December 2
International Shipping and Shipbuilding Conference and Exhibition (0206 45121)
Shanghai

December 1-11
Paris Boat Show (01-225 5566)
Paris

December 8-17
Business Fair - RIO NEGOCIO (01-499 0877)
Rio de Janeiro

December 12-15
International Telecommunications Exhibition - EUROCOMM (01-495 7977)
Amsterdam

Business and management conferences

November 20
IBC/ Ernst & Young: Claims reserving in the London insurance market – asssessing your fund practical examples (01-637 4383)
London Press Centre, London

November 21
Oracle Business Information: Administration of PEPS (01-727 3508)
Portman Hotel, London

November 23
The Industrial Society: Towards 1992 - the leagl & health & safety essentials (01-262 2401)
48 Bryanston Square, London

November 24
IBC Technical Services: Corporate fraud (01-236 4080)
Inn on the Park Hotel, London

November 28-29
FT Conferences: The food and drink industry in Europe (01-925 2323)
Hotel Inter-Continental, London

November 29
European Study Conferences: Employee share ownership plans (0536 204224)
The Churchill Hotel, London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

FINANCIAL

TODAY

COMPANY MEETINGS-
A.C. Hldgs., Great Eastern Hotel, Liverpool Street, E.C., 10.00
Lloyds Chemists, Excelsior Hotel, Coventry Road, Birmingham Airport, W. Midlands, 10.30
Manganese Bronze, Imperial Hotel, Russell Square, W.C., 12.00
BOARD MEETINGS-
Finals:
Anglo Irish Banks
Diploma
F & C Eurotrust
Glasgow Income Tst.
Interims:
Alan Paul
BAA
BET
Babcock Int.
Broad Street Grp.
Bulgin (A.F.)
C&L Microsystems
EMAP
Normans Grp.
Stirling Grp.
Stratagem Grp.
Vinten Grp.
Vista Entertainments
Volex Grp.
Walker & Staff
Wilshaw
DIVIDEND & INTEREST PAYMENTS-
[illegible]

Conversion 10¼% 1999 [illegible]
Cray Electronics [illegible]
[illegible]
Treasury [illegible]
THURSDAY NOVEMBER 23
COMPANY MEETINGS-
[illegible]
BOARD MEETINGS-
[illegible]
FRIDAY NOVEMBER 24
COMPANY MEETINGS-
[illegible]
BOARD MEETINGS-
[illegible]
DIVIDEND & INTEREST PAYMENTS-
[illegible]
TOMORROW
COMPANY MEETINGS-
[illegible]
BOARD MEETINGS-
[illegible]
DIVIDEND & INTEREST PAYMENTS-
[illegible]
WEDNESDAY NOVEMBER 22
COMPANY MEETINGS-
[illegible]
BOARD MEETINGS-
Finals:
Radio Clyde
Shani Grp.
Interims:
Cable & Wireless
Courtaulds
Harrisons Malaysian Plantations
Lon. & Overseas Freighters
DIVIDEND & INTEREST PAYMENTS-
Allied Irish Banks Und. Flg. Rate Nts. $507.92
Commerzbank Overseas Finance Flg. Rate Nts. 1995 $511.11

Sherwood Grp. 2.3p
Stag Furniture 2.75p
Sykes-Pickavant Grp. 2.25p
Synapse Computer 3.7p
T & S Stores 1.5p
Tay Homes 3p
Thorpe (F.W.) 4p
Tribble Harris 1.6cts.
Xtra-Vision 0.3p
SATURDAY NOVEMBER 25
DIVIDEND & INTEREST PAYMENTS-
Aluminum Co. of America 40cts.

PARLIAMENTARY

Tuesday

Commons: Queens's Speech debate.
Lords: Queen's Speech debate.

Wednesday

Commons: Queen's Speech debate.
Lords: Queen's Speech debate.
Select committees: Environment: subject, beach pollution. Witness: National Rivers Authority. (Room 6, 10.30 a.m.)

Energy: subject, job losses and asset sales, BP/Britoil. Witnesses: officials from BP and Department of Energy. (Room 8, 11 a.m.)

Employment: subject, tourism. Witness: Automobile Association and Association of British Travel Agents. (Room 20, 4.15 p.m.)

Transport: subject, roads for the future. Witnesses: J. Henry Schroeder Wagg & Co, Wimpey Construction and Barclays de Zoete Wedd. (Room 7, 4.15 p.m.)

Agriculture: subject, land use and forestry. Witnesses: Lord Sanderson of Bowden, Scottish Office Minister, Baroness Trumpington, Agricuture Minister, Mr David Trippier, Environment and Countryside Minister, and Mr G L Francis, director-general, Forestry Commission. (Room 5, 4.30 p.m.)

Treasury and Civil Service: subject, the Autumn Statement. Witnesses: Treasury officials. (Room 8, 4.30 p.m.)

Thursday

Commons: Queens's Speech debate.
Lords: Queen's Speech debate.

Friday

Commons: Queen's Speech debate.

APPOINTMENTS

Taylor Woodrow changes

■ From January 1 Mr Richard Mooney relinquishes his post as managing director of TAYLOR WOODROW HOMES, but continues as chairman; Mr Arthur Driver is appointed managing director; Mr John Saunders and Mr David Taylor becomes joint deputy managing directors.

■ TAYLOR CLARK has appointed Mr James Titcomb as a non-executive director and deputy chairman. He is a director of Barclays de Zoete Wedd Holdings, and English China Clays. Mr R.J. Harvey, general manager, leisure division, becomes an executive director on the main board.

■ CDFC TRUST has appointed Mr R.K. Cove as a director. He is an associate director of Merchant Navy Investment Management.

■ HENDERSON ADMINISTRATION INTERNATIONAL has appointed Mr Richard Garland as marketing director designate for North America. He was assistant marketing director, UK pension funds, Morgan Grenfell Investment Management.

■ HERTZ EUROPE has appointed Mr Andrew Gray as director marketing. He was general manager scheduled services, Air Europe. Mr Jan Astrand becomes vice president finance and administration.

■ Mr Michael Randall has been appointed marketing director of CATER ALLEN ASSET MANAGEMENT.

■ Mr David Dury has been appointed general manager, UK operations, for ZENITH DATA SYSTEMS, Slough. He was with Wang.

■ Mr Rob Mell has been appointed general manager for the point-of-sale division of NBS, Weybridge, credit card and equipment supplier. He was with Omron Terminals UK.

■ Mr John D. Spink has been appointed a non-executive director of THE BRITISH LAND CO.

■ CANTORS, Sheffield, has appointed Mr Alan Rickford as an associate director. He was assistant merchandiser.

■ A.J. ARCHER & CO, Lloyd's managing agent, has appointed Mr John Ball as a director. He is underwriter for a new Lloyd's non-marine syndicate, No.1153, which starts on January 1.

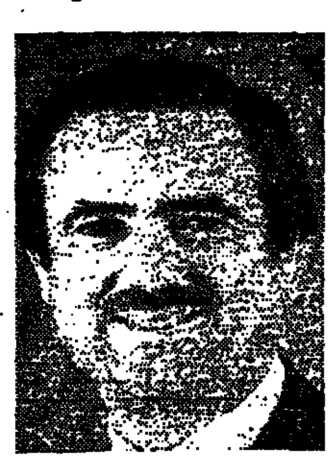
■ Mr Geoffrey Healy has been promoted to divisional general manager of THE AGRICULTURAL MORTGAGE CORPORATION, Andover. He was advance group manager.

■ Mr Roy Attenborough has been promoted to operations director, Mr John Smith to commercial director, and Mr Brian Fergie to finance director of HAYS INTERBOND. They were regional managers.

■ Mr Mark Sykes has been appointed director of sales for the LONDON ARENA, Docklands. He was divisional general manager at Wembley Arena.

■ LIDIARD & SKELTON, part of the Powrmatic Group, has appointed Mr David J. Gledhill as general manager. He was technical services manager. Mr Ken Lidiard relinquishes his post as managing director, but continues as a consultant.

■ Mr Robert Leslie has joined the board of G.M. Benefit Consultants, a subsidiary of GUINNNESS MAHON HOLDINGS, and has been appointed managing director of G.M. Benefit Consultants (Scotland). He was with Arthur Young.



Mr Brian Smale (above), commercial director at PLESSEY-TELENET, Basingstoke, has been appointed financial director.

NOTICE OF INTEREST RATE

KINGDOM OF DENMARK
ECU 150,000,000
Floating Rate Notes
Due 1990

NOTICE IS HEREBY GIVEN that the interest rate covering the interest payment period from November 15, 1989 to February 14, 1990 (92 calendar days) has been fixed at 8.5249%. The accumulated interest rate factor per ECU 1,000 denomination is 21.7858.

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November 13, 1989

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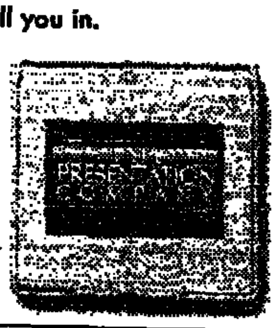

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FINANCIAL TIMES SURVEY

After eight years of growth, British construction output is forecast to slip back next year. Private sector housing output has already fallen sharply while industrial development has peaked and is likely to drop. How steep will this decline be? Andrew Taylor reports

In shape for a downturn

IS BRITAIN'S construction industry, after eight consecutive years of growth, heading for a recession and will it be a hard or soft landing when output does start to decline?

Gazing out from the Financial Times' new headquarters overlooking the City of London to a skyline dotted by dozens of construction cranes, such thoughts seem preposterous.

Seldom has the British construction industry appeared busier. Construction output valued this year at more than £40bn is expected to have risen to a record high, despite the collapse of housebuilding in southern England.

The value of order books of large and medium-sized contractors has risen by between a quarter and third during the past 12 months as investment in office, factory and warehouse developments has soared.

The big rise in commercial development has not been restricted to London. The rate of increase has been just as great, if not greater, in Birmingham, Leeds, Cardiff and Manchester.

There have been signs, however, that high interest rates are beginning to take a toll on private sector investment plans.

A recent survey published by Associated Building Industries, one of the country's largest organisations monitoring development opportunities and construction contract awards, showed that many commercial and industrial developers were postponing starting work on new schemes because of the uncertain economic climate.

Mr Philip Davies, ABI's managing director, says: "We normally expect an increase at this time of year in tender documents being sent by developers to construction companies so contracts can be placed and work can get under way before the end of the financial year. This does not seem to be happening this year."

The ABI survey, published at the beginning the month, showed that work on larger contracts was more likely to be postponed. Replies from 1,500 companies revealed that the number of contracts worth £10m or more, let or under negotiation between July and September, had fallen by 17 per cent compared with the previous three months.

High interest rates have coincided with what may turn out to have been the peak of the property cycle. The rapid pace of development in London means that during the next few years there are likely to be too few tenants to fill all the new buildings due for completion over the next few years.

Mr Frank Lampl, chairman of Bovis, the construction arm of P&O and one of Europe's biggest construction management groups, says: "Taking a realists' view, the prospects for the UK construction industry in the coming months are not encouraging.

"The commercial building boom of the late 1980s could not have been expected to last for ever. At some stage supply was always likely to outstrip demand and this time I believe the cycle has been accelerated by the construction industry's ability to build faster."

Cutbacks and redundancies among London stockbroking firms, following the stock market collapse in October 1987, have also meant that less office space is likely to be required than when some of these schemes were first proposed.

Developers are expressing concern about the viability of large office projects in London's Docklands such as Olympia & York's Canary Wharf development on the Isle of Dogs which may find it difficult to attract tenants away from the traditional prime property markets of the City and West End.

Broadly based construction companies which have property development arms alongside traditional contracting and house building businesses also may find it more difficult next year to increase sales of commercial property developments to offset expected falls in housebuilding profits.

New orders for office construction in London have fallen this year as rents in parts of the capital, including the City, have peaked. A recent study by Jones Lang Wootton, one of Britain's biggest commercial property agents and chartered surveyors, showed that starts made on office building in central London fell by 29 per cent during the first six months of the year.

So far, there has been no sign of any marked decline in new investment in provincial offices where rents have continued to rise. These markets, however, cannot expect remain immune indefinitely from economic and high interest rate pressures.

These have already taken a toll on British housebuilders. One publicly quoted housebuilder, Kentish Property, has gone into receivership after sales of flats dried up on a large residential development planned for the Isle of Dogs in London's former Docklands.

Builders say house sales have fallen by up to half in parts of southern and eastern England compared with last year. Sales further north, which have been good for most of the year, are becoming harder to achieve since last month's rise in bank base rates and mortgage interest rates.

Many builders have been offering substantial mortgage subsidies and other incentives to encourage sales. Stockbrokers expect housing profits of many companies will fall next year as margins become eroded, with sales unlikely to improve greatly until later next year even if interest rates fall by the spring.

Retirement home builders have been having a particularly hard time. The elderly, rather than accept lower prices, have postponed selling their homes. The market for retirement homes has shrunk temporarily as a result.

The biggest casualties among housebuilders, however, are likely to be small, privately owned companies which have borrowed large sums to finance a very small number of local developments. Publicly quoted companies tend to operate in much wider geographical areas and are therefore less vulnerable to the collapse of a single market like Docklands in London. Public companies are also much less heavily geared than they were in the mid-1970s when a collapse in house sales led to the failure of several large housebuilders.

The fear of construction companies and building material producers must be that private investment in commercial and industrial property will fall before the housing market recovers

Large projects like the Channel Tunnel, Canary Wharf and other big city centre projects, already under way, will help underpin workloads in the medium term. Order books are such that most contractors say they have enough work to last for at least another 10 to 12 months, even allowing for postponements and cancellations.

Contractors hope that by the end of next year housebuilding will be recovering and that the Government will seek to encourage investment in the run-up to the election. Construction's best hope of offsetting a recession in the industry lies with plans for a substantial rise in spending on the UK's fraying infrastructure.

Spending on motorway and trunk road construction is planned to more than double to £12bn during the next decade which should provide substantial amounts of work for civil engineers and building material companies such as aggregate, concrete and blacktop suppliers.

The privatisation of water is expected to release a huge backlog of investment which in previous years has been restricted by public spending constraints. Investment in construction by water companies over the next decade has been forecast at just under £20bn.

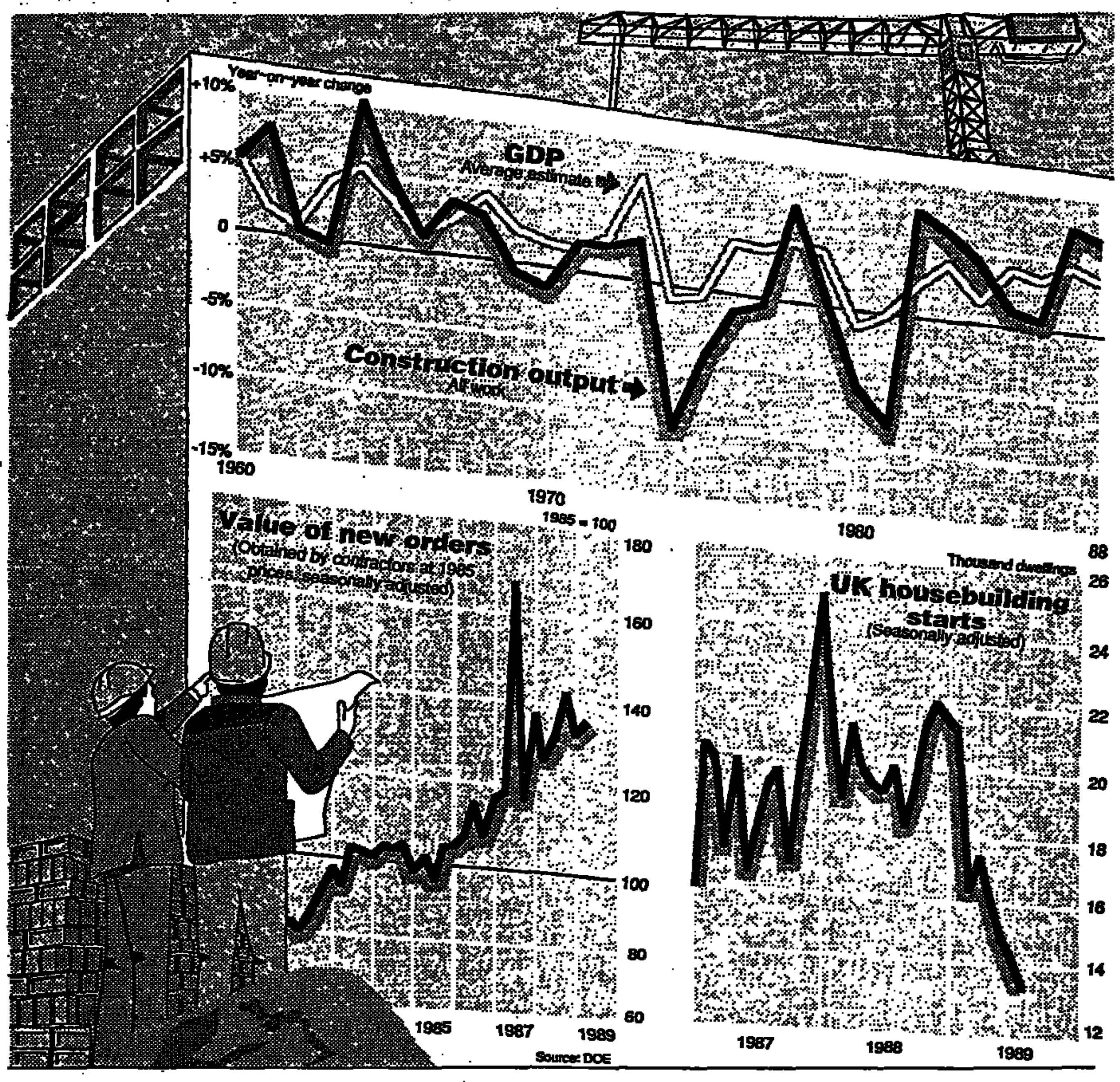
Investment in a new generation of gas-fired power stations is expected to coincide with the privatisation of the electricity supply industry. Private sector transport schemes include plans for privately financed high speed rail link between London and the Channel Tunnel and several light rail systems proposed for provincial cities such as Manchester. There are also plans for privately financed motorways in the Midlands and north-west.

The momentum behind schemes like these, and a host of inner city redevelopment plans, is high. On the other hand, construction typically reaches its peak just as the economy starts to turn down. The very pace of building creates too many offices shops which no longer have sufficient tenants to fill them.

The chart shows how sensitive construction output is to the health of the economy. Rises and falls in total construction output, including repair maintenance and improvement work, have closely followed changes in the Gross Domestic Product.

It also shows that construction cycles have tended to move very swiftly from high peaks to deep troughs. This was best seen in the mid-1970s when hundreds of thousands of construction workers were laid off or made redundant as UK contractors and housebuilders were taken over or went into receivership.

The industry is now in much better financial shape to withstand a downturn which contractors say is unlikely to be as fierce as in previous cycles, although it may still be painful.



UK Building & Construction

CONTENTS

Illustration Graham Lever

R&T

P OFI

For faster profit, R&T is the key

Rush & Tompkins' remarkable reputation for meeting (and beating) deadlines to strict budgetary and specification demands is the key to your profitability.

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Andrew Taylor looks at the effects of the slump in house sales

Likely to get worse before it gets better

YOU CAN no longer view photographs of houses for sale at the Black Horse estate agency in Saffron Walden's historic market square in Essex. Until very recently, the windows of the premises were white-washed over and a "To Let" sign hung outside the building.

The office, one of more than a half a dozen estate agents, clustered in and around the market square, was a casualty of a sharp slump in house sales. This has been brought on by a sharp rise in UK interest rates in the past 18 months.

Bank base rates have doubled from 7.5 per cent to 15 per cent since May last year. Mortgage rates have not risen by as much but the effect on monthly repayments, particularly for those who had borrowed to the hilt, has been dramatic. Worst-hit have been home owners in the south of England, where house prices and mortgages are much higher than in other regions.

An average loan of £58,500 in south-east England has risen after tax relief from £467.58 in May last year to £641.03, according to Halifax Building Society. This is after taking into account the recent 1 percentage rise in the mortgage rate to 14.5 per cent. Sales of homes in parts of southern England have fallen by a half.

Sales of houses and flats in northern England and in Scotland, by comparison, have continued to rise, although estate agents say the market in northern England has slowed recently. The Scottish market has remained very buoyant. Some builders in Scotland have even reported a shortage of carpenters and bricklayers.

The strength of the housing market in Northern England and Scotland has been one reason why profits of national housebuilders have been better than might have been expected this year, given the problems in the South and Midlands.

Another reason has been that profit margins as a result of big price rises in 1988 have been good in Southern England, despite the fall in sales. This has given builders greater flexibility to offer discounts, mortgage subsidies and other sales incentives.

Most analysts see housebuilding profits falling sharply next year as margins are eroded, while sales are expected to recover slowly. Markets in the north of the country will also come under pressure as the gap between house prices and wages narrows.

Two recent company results illustrated the disparate nature of the housing markets in northern and southern England. BDA Holdings, a London-based housebuilder and developer, announced a £755,000 loss in the six months to end-July and said it would not pay an interim dividend.

Tay Homes, a Leeds-based developer which also sells in Scotland, the same week announced a 62 per cent rise in pretax profits to £8.33m.

Twelve months ago, according to the Halifax, an average home in Yorkshire and Humberside would have cost about 3.5 times the average annual salary of a local borrower. A similar home in south-east England would have cost almost six times the salary of a local Halifax borrower.

Recent price movements have narrowed that differential. An average house in Yorkshire and Humberside now costs four times the region's annual average wage. Average prices in the south-east have slipped to just five times the average regional salary.

The housing market in the North has started to slow as the ratio between house price rises and earnings in the region has come closer to that in Southern England.

The recently announced rise in mortgage interest rates will add substantially to the pressure on homeowners experiencing difficulty in meeting monthly mortgage payments; on estate agents which have been closing branches and making staff redundant and on housebuilders.

Figures published last month by the Halifax Building Society show how house prices in the South have tumbled. The greatest fall has been in East Anglia where the average decline was 11.3 per cent in the nine months to end-September.

Prices in south-east England on the same basis had fallen by 6.3 per cent, in south-west England by 4.7 per cent and by 4.9 per cent in Greater London.

After taking into account rises in the North, prices nationally increased by 9.5 per cent during the year to the end of September. It was the first time Halifax's annual house price index had fallen to single figures since early 1986. At the end of last year prices in the UK had been rising at more than 34 per cent annually.

The collapse in sales has been even greater. This is because many owners prefer to take their houses off the market rather than accept a lower price – unless they are under pressure to sell. The effect on cash flows of housebuilders, particularly those which build only in south-east England, has been very damaging.

But, so far only one publicly quoted residential developer, Kentish Property, has gone into receivership. This failure was caused by a sharp fall in sales of flats for a residential development being built by Kentish on the Isle of Dogs.

The stock market, however, is not expecting a stream of company failures as occurred when the housing market collapsed in the mid-1970s. Mr Roger Oldfield, a receiver at several Kentish Property developments, has been a member of of Peat Marwick's corporate recovery department for almost two decades. He witnessed the failure of large housebuilders like Northern Developments in the mid-1970s.

"Most public companies which survived that period have learned their lesson and are much better managed, have much lower debt in relation to shareholders' funds and are therefore less susceptible to big increases in interest rates," he says.

"Companies which fail this time are likely to be much smaller, probably private businesses, tied to single markets and which lack the management experience to cope with the slump in demand."

Estate agents say several private developers in London are having difficulty in meeting interest charges as sales of flat renovations dry up. The likelihood is that it is going to get worse before it gets better.

The Government's new line on planning marks a radical change in its approach

Environment now major point of concern

THE FIRST week in October was not a good time to be a housebuilder.

Bank base rates climbed another percentage point, forcing up the cost of home loans and depressing hopes that house sales might start to recover early next year.

And Mr Christopher Patten, in one of his first decisions as the new Environment Secretary, announced a radical change in the Government's approach to planning which previously had encouraged local authorities to give priority to housebuilding.

Mr Patten, appointed to improve the Government's image on green issues, proposed to withdraw an earlier guidance note advising planners to presume in favour of housebuilding when considering planning applications from developers.

Mr Patten's remarks are likely to be more palatable than Mr Ridley's to Tory voters

He said the note had implied that housebuilding should take precedence over environmental concerns. This was not the Government's view. The guidelines had been issued in the early 1980s when the need to build houses was more pressing.

Mr Tony Burton, planning officer for the Council for the Protection of Rural England, says: "Mr Patten has shifted the point of balance between housing and the countryside so as to make the environment the major point of concern."

Mr Patten's decision was warmly welcomed by influential shire county Tories who had strongly criticised Mr Nicholas Ridley, the previous Environment Secretary, for failing to take a stronger line against development in rural areas.

It was Mr Ridley who dubbed opponents of new development as Nimbys – people who were content for themselves to live in attractive surroundings but who said "Not In My Backyard" if new homes were proposed for their neighbourhood.

Mr Ridley argued that growing demand for housing in south-east England meant that new settlements would be needed in rural areas if the children of families already living in the region were to be able to find homes. Shortage of houses meant that youngsters were being priced out of the region and was restricting job mobility.

Feelings of local Conservative voters against Mr Ridley ran so high that some of them burnt an effigy of him at a demonstration against plans for a new country town at Bramshill in north-east Hampshire.

The remarks made by Mr Patten – who subsequently reversed Mr Ridley's decision to allow Bramshill to be developed – are likely to be more palatable to Conservative voters, but how will they affect housebuilders proposing developments in rural areas?

Mr Patten says the new guidance to planners will not affect how much extra housing each county will be expected to accommodate but will give local councils greater responsibility to decide where those homes should be built.

Housing targets would be agreed with central government under normal regional and national planning procedures.

This is particularly relevant to south-east England which will need to provide an additional 670,000 homes by the end of the century.

Mr Patten believes that county and district councils are best suited to identify sites where that housing should be situated. Councils would be expected to prepare detailed local plans to take account of housing allocations for each county.

"If the planning system works properly at the local level, there is less need for central government decision-taking, by me or by my inspectors, which can so easily appear to the local community to attach too little weight to their views," says Mr Patten.

This approach could even benefit developers if it removes uncertainty from the planning process – but only so long as local councils knuckle down and identify specific sites for all the extra housing they will be expected to accommodate by the year 2000.

Developers could benefit – but only so long as local councils knuckle down

Many local authorities in the south-east, particularly in Hampshire and Berkshire which have seen a large increase in housing in the last 20 years, will be under severe pressure from voters to restrain any further development.

Housebuilders suspect that many of these councils will prevaricate and will not identify the sites requested by Mr Patten.

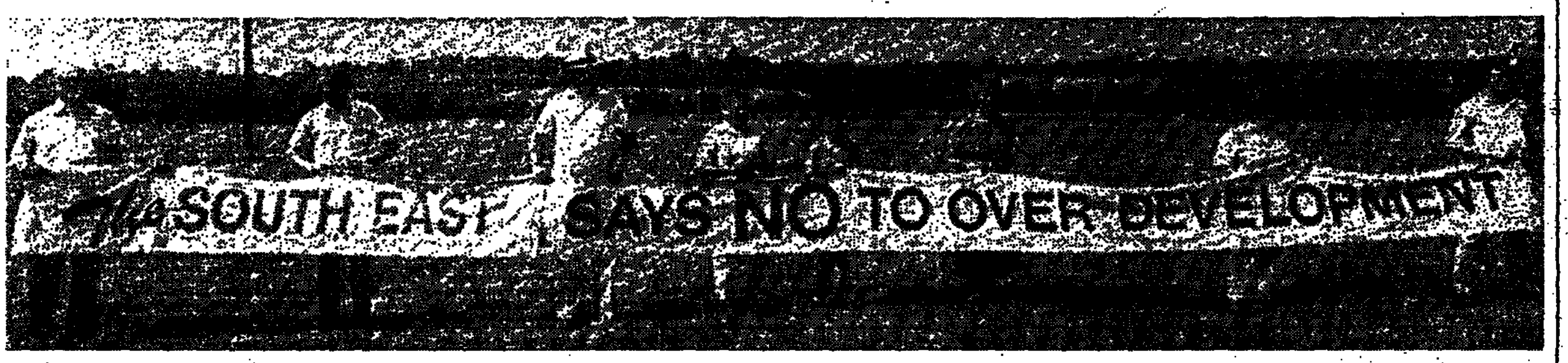
They also say that the Government may not want to antagonise its traditional supporters in the shire counties as these could determine the outcome of the next election. Nimbyism will continue to prevail, say builders gloomily.

They expect that very few large-scale housing schemes proposed for rural areas in southern England will be approved between now and the next general election unless developers first get the approval of councils. That, on previous experience, is likely to be very difficult.

Andrew Taylor

Patten decision reverses Ridley approval of plan for Hants country town

New broom gives developers a brush-off



Demonstrators protest against the Foxley Wood development: unlike his predecessor, Chris Patten has seen their point of view

MR PATTEN has already blocked one major housing development proposed for north-east Hampshire. The plan to build a new country town of 4,800 homes at Bramshill near Fleet had been supported by Mr Nicholas Ridley, the previous Environment Secretary, writes Andrew Taylor.

Mr Patten's decision was a blow to the developers, a group of 10 of Britain's biggest housebuilders operating under the banner of Consortium Developments.

Mr Ridley in July had said he was minded to approve the development proposed by the consortium at Bramshill, despite the objections of a public inquiry inspector who said the harm the development would inflict on conservation interests, the countryside and highways outweighed the benefits of granting planning permission.

The reversal of this decision throws into question the future for other large-scale developments proposed by the consortium and other developers.

The country town, which would have included a school, shops, a church, community hall, a small business park and 450 acres of nature reserves was to have be named Foxley Wood after John Foxley, a 14th-century landowner who once owned the site.

The plans were strongly opposed by local residents, councillors and Conservative MPs which have claimed Mr Patten's decision as a victory for local people and common-sense planning.

The consortium argues that a new settlement remains the best way of meeting Hampshire's future housing needs.

It says overheads to develop a new settlement on a large single site are much less than if the same number of houses were built piecemeal on a series of separate sites. The lower cost of developing a single settlement enables builders to invest in schools and other community facilities.

"Hampshire will still have to provide for a huge increase in housing in the 1990s, irrespective of the decision on Foxley Wood. The figure is no less than 22,600 homes beyond their present thinking. A new settlement is going to be needed," says Lord Northfield, the consortium's chairman.

The consortium, formed six years ago, has still to start a single development. Its members are Barratt Developments, Beazer Homes, Bovis Homes, Ideal Homes, Laing Homes, Y.J. Lovell, McCarthy & Stone, Tarmac, Wilcon Homes and Wimpey Homes.

On three occasions its plans to build small country towns in south-east England – each complete with shops, schools, churches, community centres, doctors' surgeries, parks and other recreational facilities – have gone to public inquiries. Each time the proposals have been rejected.

Mr Andrew Bennett, the consortium's chief executive, said in July that the group's position might be in question if it failed to get a scheme approved by the end of this year.

Its best chance appears to be its plan to build a new settlement of 1,500 homes north of Cambridge which has gone to a public inquiry but which is supported by local councils.

Previous plans for country towns at Tillingham Hall, near Grays in Essex and at Stone Bassett, near the M40 in Oxfordshire were rejected by Mr Ridley. Mr Patten had been in his new job just 10 weeks when he rejected plans for Foxley Wood.

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A toe in the water

AS PRICES stagnate and stocks of unsold homes climb, renting is creeping back into the industry's vocabulary. Starved of the local authority orders which once cushioned recessions, builders are looking for alternative outlets such as housing association contracts. But private landlords have also come back on the scene, after almost a century of decline.

More than 6,000 homes were bought last year under residential building expansion scheme (BES) regulations introduced to help revive the rented sector. This is a mere pinprick compared with around 130,000 new homes completed in even the worst years of a downturn, and about half the units were probably in existing buildings requiring renovation. But even the smallest outlet is welcome when times are hard.

No major builder has yet dived deeply into the BES sector, although it is still early days. The scheme has been operating for only two years and for half that time houses were selling like hotcakes without any help from investment subsidies other than mortgage tax relief.

The Barratt Group is building up enthusiasm after selling around 100 homes in London and the north-west to BES groups for more than £6m. Now it plans to offer investors 25 sites around the country with a capacity for more than 900 homes. These schemes, along with bulk deals for housing associations and local authorities, have helped reduce dependence on individual sales, says Mr Michael Pattinson, Barratt sales and marketing director.

Other large operators are also putting a cautious toe in the water and the mass of smaller companies is also starting to show interest. "The attractions are just beginning to sink in," says Mr Tim Villars of BES Investment Research. "I get calls each week from outfits with a half-dozen flats they want to get rid of to one of the private BES groups I set up."

Deals like this can benefit both sides: the builder eases its cashflow problems at a stroke and the BES group can pick up property at a big discount. The trouble is that tax concessions are limited to property worth no more than £125,000 in London and £85,000 elsewhere, which rules out many homes.

Investment advisers also try not to recommend "leftover" property which may be sub-standard or wrong for the rental market. Too much local competition or lack of demand, and both rental performance and capital growth may be weakened. That would be the kiss of death, as BES schemes are geared to short-term profits. Many investors aim to take their money out after the minimum tax-break period of five years.

Encouraging high tax-rate investors to become landlords

BES developments are probably evenly split between new and second-hand property. Johnson Fry, which figures to have taken about a fifth of last year's £320m investment haul, bought a wide cross-section of more than 1,000 homes ranging from bed-sitters in Scotland to East Anglian Georgian cottages as well as a wide assortment of new flats and houses. Mr Owen Inskip, managing director, points out in his latest £25m BES prospectus that little capital appreciation is expected on new homes before the middle of next year.

But Mr Inskip emphasises scope for growth in older properties in the north, perhaps indicating which way his investment path may go. On the other hand, he does not rule out opportunist purchases at large discounts as BES groups hover like vultures over weakening builders.

Link Assured has made its preference for new buildings plain. Last year it raised £64m to buy 766 homes from 62 builders in more than 30 towns, making the group one of the largest purchasers of new property in the UK. Its "second generation" scheme this year is much smaller, with a ceiling of £17.5m. This is because brokers Williams de Broe and managers Graham Harvey are offering guaranteed cumulative growth of at least 7 per cent a year to overcome fears about the slowdown in property prices.

Much of the risk is being absorbed by Persimmon Homes in a remarkable tie-up which will see the builder providing homes worth up to £15.75m and underwriting the growth guarantee. In return, it gets an outlet for homes plus the bonus of any surplus growth above the target rate up to a maximum of 9 per cent a year.

A different sort of BES link has been established between John Laing Construction and Manchester Village Homes, a £5m scheme following up the Scottish experience of Norcity last year. JL is a major investor but will not be selling the BES group its homes. In fact, the organisers emphasise that JL does not build in the south Manchester target area, so investors will not end up with the builder's "cast-offs."

The aim is to make a 30 per cent saving on bought-in homes by issuing design/build contracts which cut out developer profits, overheads, marketing costs and many other expenses. These contracts will not necessarily go to JL, but it is hoped that the construction group will bring in sites and development opportunities in the hope of obtaining work.

The sheltered-housing developer McCarthy & Stone has to play a similar arm's length role with Retirement Assured, the £4.5m BES it set up earlier this year. The aim was to diversify into renting homes to the elderly by running the scheme through Peverel, the McCarthy management arm. But the Inland Revenue demanded greater independence before it would grant tax subsidies, and while 73 apartments have been bought from the parent group, the BES can theoretically choose competitors' property in future.

The schemes were not, of course, intended to be merely a bonus for builders. The chief aim was to give tenants an alternative to buying, by holding out carrots to encourage high tax-rate investors to become landlords. But company lets and short-term contracts were the first BES targets, drawing criticism that most schemes would be too expensive for people most in need of accommodation – the poor who could not afford to buy. Early evidence in Scotland, where the first BES schemes were set up, confirmed some of these fears. Some rents in Glasgow have been registered at between £350 and £800 a week.

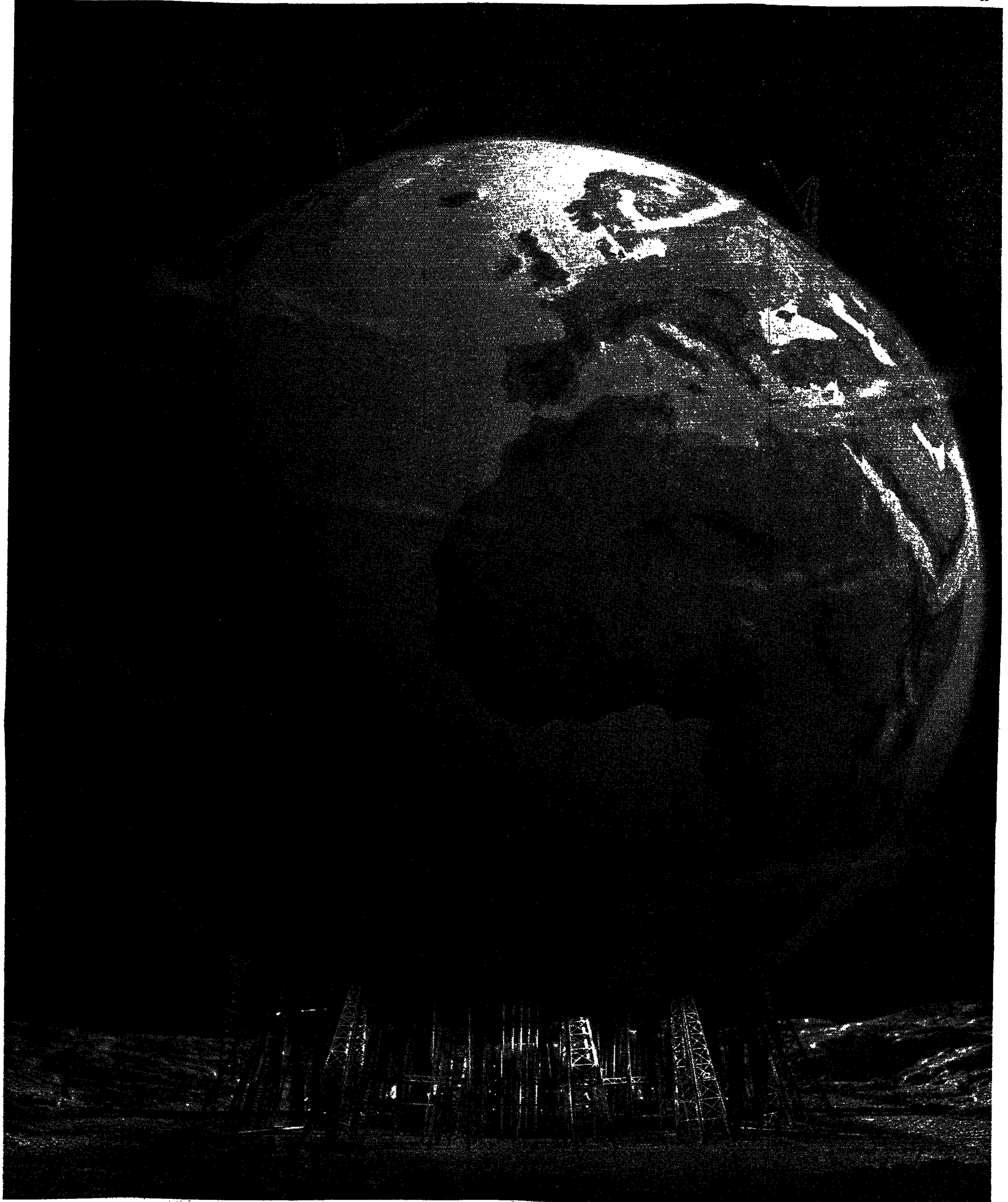
Quality Street, the BES group backed with £600m from Nationwide Anglia Building Society, has its share of top-drawer schemes. Rents at Cyclops Wharf, for instance, the block bought from Fairclough Homes in London's Docklands, are between £170 and £200 a week. But the group is also building homes at £65 a week to let in Peterborough and flats in south London which cost tenants little more because of a subsidy from Bromley Council.

Johnson Fry admits to targetting young and mobile professional tenants. That is understandable, as property values could be slashed if schemes are left with sitting tenants when investors want to take out their money. But its rents average around £70 a week across the country, helping fill that middle gap between those on housing benefit and the average buyer.

High interest rates are the biggest boon to BES developments at the moment. Many people are forced into renting; others are choosing to bide their time in high-quality lets rather than buy when rents are half the average cost of mortgage repayments. This could draw a lot more investors into buying surplus homes from builders, but the real test will come when rates decline again.

If too many of these tenants disappear and schemes collapse, BES could get itself a bad reputation and private landlords could disappear again into the mists of history.

David Lawson



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Andrew Taylor looks at plans to spend £12bn

Road problem to be tackled

BRITAIN PLANS to more than double its spending on motorway and trunk road construction to £12bn in the next decade, providing much more work for civil engineers and building material companies such as aggregate, concrete and blacktop producers.

The pace at which this money is released, however, will depend on the annual public spending decision, normally in the Chancellor's Autumn Statement. Historically, the Treasury has reined in capital spending on infrastructure when inflation increases.

While the performance of the economy, including the prices charged by contractors for road building and repair, will affect the speed of the road programme, there is now a belief among ministers, as well as construction companies, that a big rise in investment can no longer be postponed.

This should provide a cushion for broadly-based construction companies suffering from a decline in private housing and commercial development.

The proposals in a white paper published by the Transport Department in May would increase the previous £5bn road programme to £12bn. The emphasis will be on widening existing routes rather than building new roads.

They involve adding extra carriageways to most of Britain's busiest motorways. The M25 around London would be widened from three to four lanes at a cost of £1bn – the same as it cost to build the original motorway.

The white paper, Roads for Posterity, said the proposals would be pursued as a matter of urgency to take advantage of the opening of the Channel Tunnel in 1993 and the dismantling of trade barriers between European Community countries in 1992. Mr Cecil Parkinson, Transport Secretary, this month told construction companies building the tunnel that failure to tackle the problem of Britain's congested transport system could make British industry uncompetitive with continental companies.

Figures in the white paper showed that traffic on British roads was estimated to increase by up to 142 per cent by the year 2025, much higher than previously forecast.

Under the proposals nearly a third of Britain's motorways will become four-lane dual carriageways. Most of the remaining motorways would have three lanes. Almost two-thirds of trunk roads would become dual carriageways, compared with a third now.

Adapting bridges and embankments to accommodate extra lanes on motorways is likely to be particularly difficult. One suggestion has been to convert hard shoulders under bridges into temporary lanes. Eighty-six miles of new motorway would be built compared with 900 miles of road-widening schemes.

New motorways are proposed between the M25 and Chelmsford in Essex and between the M6 and the M66 between west and north Manchester. Motorway widening schemes would dominate the early part of the programme. It is generally faster and easier to widen roads than build new ones.

Extra lanes have been proposed for most of the M1 which connects London with the north of England and for the M6 between the Midlands and the north-west. Large parts of the A1 will be upgraded at a cost of £400m. Plans to convert the road between London and Tyneside in north-east England into a motorway will also be investigated.

Preparatory design work has already been awarded to private sector consulting engineers. The Government has set itself a target of reducing by four years the average time taken "to process schemes from programme entry to opening for traffic."

The road white paper of April 1987 estimated that most major roads took more than 13 years from entering the programme to completion.

Though the Government appears determined to spend large sums to improve Britain's roads, in recent years it has imposed a temporary moratorium on motorway repairs because, it says, of rising prices imposed by contractors. So will the finance be available to complete what is an ambitious programme?

There are signs of a property downturn, says Paul Cheeseright

Market takes some bumps

CONFIDENCE HAS started to seep away from the property industry. It is not that demand has suddenly fallen away. It is simply that it has become apparent that the abnormally high returns of 1987-88 are unlikely to be repeated.

The state of the industry varies from sector to sector and from region to region.

In sectoral terms, retail property has been the first to succumb to the increase in interest rates and the Government's attempt to rein in consumer spending. There is still some rental growth taking place in the market but the retailers who chased around Britain looking for space are now more cautious.

In geographical terms, it is becoming clear that if there is a downturn it will occur first in the City of London and then probably spread outwards, in just the same sequence as the original surge of building and development.

The early signs are already there. The rush to pre-let office space has disappeared. Potential tenants are tending to hold back and developers are taking their buildings a stage beyond shell-and-core before they sell or lease them. The heady rise in rents, as characteristic of 1986-88, has flattened out.

Recently the market has taken some bumps. The series of interest rate rises was uncomfortable but not necessarily of vital importance to well-funded developers with long-term finance in place. But the effect of interest rate rises on company investment plans is likely to be a depressing factor, because it follows that demand for space will slacken.

When base rates went to 15 per cent in response to the pressure on sterling, when Mr Nigel Lawson resigned as Chancellor of the Exchequer and the Government appeared in disarray, and when the stock market had a lurch downwards, the immediate effect was to create uncertainty in the property market.

The result of this uncertainty has not been to reduce rents so much as to quieten activity. Decisions by users of office and industrial space about future property needs are simply being delayed.

The uncertainty would have mattered less to the industry if it had come at a time of acute shortage of space. Such a shortage does exist in pockets, but generally the rapid pace of development has started to catch up with demand, swinging the market in favour of the tenant.

Small wonder then that confidence in the property market should waver. In the commercial sector, this has not yet manifested itself in financial failures among the quoted companies, but there are believed to be small operators up and down Britain who have bought sites expensively, assuming that rental growth is assured, and now find themselves carrying heavy loans at very expensive rates. For them the ball is nearly over.

The other side of this equation is that greater easiness in the market is giving developers greater freedom in the choice of their contractors and competition among them is beginning to show through in a slowdown of the rise in their prices.

Although the political and financial events of recent months have focused minds in the property industry on the likelihood of a slower market, evidence that the rise in the rate of return was slowing has been available since the spring.

The Investment Property Databank monitors portfolios of institutional property and found that its index of all property yields peaked in January 1989 when the return for the previous 12 months reached 31.8 per cent. But in the 12 months to September 1989 the return was 22.4 per cent.

Within these figures a sharp disparity has emerged in the performance of retail and industrial property. Retail property returns have been consistently high in response to the consumer boom which ran right through the 1980s until mid-1988. Total returns in the retail sector peaked in August 1988 at an annual rate of 24.8 per cent before slipping to 13.7 per cent for the year to September 1989.

From mid-1988, returns for industrial property began to surge upwards and for the year to February 1989, according to the IPD, figures were no less than 46.7 per cent. They have since fallen back from this rate of growth but remain high.

In the office sector, the IPD figures show the peak was reached, in terms of annual total returns, in November 1988 at 38.9 per cent. But the return has subsequently fallen to 28.1 per cent for the year to the end of last September.

Movements in the market suggest that the trend in these figures is likely to continue. This does not imply disaster except for those who came late into the industry and paid too much for their entry ticket. Available returns from property are still running higher, according to the portfolio measurement figures, than for equities and gilts. But it does imply that the industry is starting to move back to a more normal existence where returns are around 15 per cent, a figure that prime retail property owners achieved even in the depressed 1970s.

Within the industry itself, the enthusiasm for town centre shopping schemes is likely to continue. Although there is a considerable amount of shopping space in the pipeline, established developers are looking ahead to the mid-1990s. In the office sector it can be expected that development in regional centres and in the fringe areas of the City of London is likely to slow

Demand for industrial space is likely to be selective: old space will probably be readily available and become more difficult to let but there will be a ready market for new space adjacent to the motorways.

Andrew Taylor examines the reasons for a £2.6bn trade deficit

Not just putty in their hands

THE UK had a record £2.6bn trade deficit in building materials last year, 28 per cent higher than during 1987, as domestic material producers and suppliers failed to keep pace with sharply rising demand from the construction industry.

The deficit has risen from just under £400m in 1981 to account for more than 10 per cent of Britain's visible trade deficit of £20.5bn.

Even putty moved from a £3.7m trade surplus in 1987 to a deficit of £417,000 last year. Mr Christopher Chope, Environment Minister, said recently that Taiwanese putty had been used to build British prisons.

British companies have been criticised for not investing enough in new products and designs, manufacturing capacity and training staff. As a result, continental companies have moved into their markets.

However, several mitigating factors should be taken into account when considering the rise in Britain's trade deficit on building materials. These are:

□ UK construction output has risen in every year since 1981, increasing by 7.3 per cent in 1987 and by 7.1 per cent in 1988. By comparison, construction output in West Germany stagnated during the mid-1980s. British building material producers were struggling to keep pace with a sustained period of high growth in demand while continental suppliers sought new markets to offset low sales in their own countries.

□ The proportion of imports used by British contractors has changed little in the past decade. Imports as a proportion of total building materials sales ranged from just over 22 per cent in 1978 to just over 25 per cent last year. The trend has been for imports to be sucked in during periods of high demand but for these to decline as output falls away.

□ Products such as timber, aluminium and copper which Britain does not produce, or only in small quantities, accounted for more than 60 per cent of last year's £2.6bn deficit. If these were deducted, the deficit would be much smaller.

□ UK building materials companies have substantial overseas operating subsidiaries whose earnings do not feature in the trade figures. The 15 largest companies last year earned around £780m in profits from overseas investments with sales of more than £6bn.

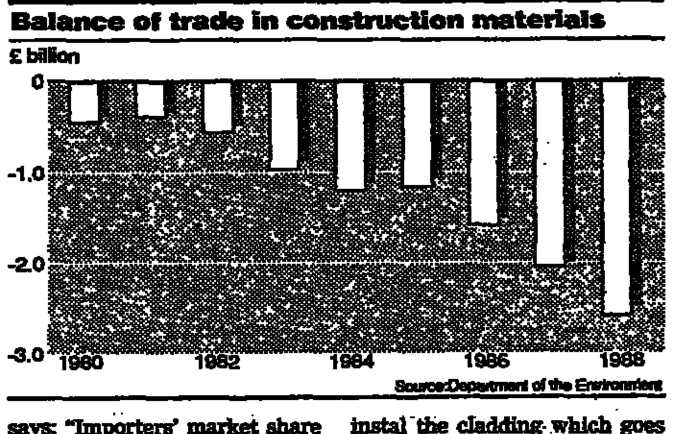
□ The speed with which private investment in construction rose, compared with the length of time needed to design, win planning permission and construct a brick or cement works meant that a temporary shortfall was always likely if a sudden rise in demand occurred. Indeed, brick companies have committed £150m of new investment in production capacity in the past three years.

Brick and cement producers risk increasing capacity to meet record demand only to discover that construction output falls away so the new plant is no longer required. It can take five to 10 years after approval to get a new cement works fully into production.

Cement companies which, for much of the previous decade, have been closing unwanted and inefficient plant, have imported cement to top up production rather than invest in new works that may not be needed in a few years.

Brick manufacturers, criticised 18 months ago for being unable to supply enough bricks to meet a big increase in British housebuilding, are now closing kilns as house sales in Southern and Eastern England have fallen by up to half.

Balance of trade in construction materials



Source: Department of the Environment

The National Council of Building Material Producers says: "Importers' market share has in fact grown very little over the last five years, with a few notable exceptions such as ceramic tiles. Curtain walling contracts, although placed with overseas companies, may use British materials. German and Scandinavian curtain walling companies, for example, use a lot of British steel and glass to clad British buildings."

British companies have been unsuccessful, until recently, in developing a domestic curtain walling industry to supply and install the cladding which goes around a modern office building. This can include glass, steel, marble, granite and concrete panels in all manner of different shapes and designs.

The market, although small in relation to total building materials worth more than £16bn last year, has grown rapidly. Sales of curtain walling, estimated to be worth £450m last year, have more than doubled since 1984.

The National Council of Building Material Producers says: "German and Scandinavian producers used to supplying their own well-developed home markets have been the initial beneficiaries."

Italian and Spanish companies have substantially increased their share of the British ceramic tile industry. H & R Johnson, the UK's biggest ceramic tile manufacturer, making 325 of its 2,300 workforce redundant this month, blamed Spanish and Italian imports as well as the recent decline in housebuilding.

The company said tile imports had risen from 25 to 70 per cent of the British market since 1980. Italy now accounts for 35 per cent of world production of ceramic tiles.

The National Economic Development Office which last year published a report advising building material manufacturers how to fight competition from imports says: "What is worrying is the increasing deficit in manufactured goods – such as central heating boilers, radiators, glazed and unglazed tiles and doors."

Britain's trade deficit on builders' ironmongery such as door knobs and hinges rose to £169m last year. The deficit on tiles was £100m.

The building materials trade deficit is not as bad as it has been painted. But it is worrying that value-added manufactured goods seem to be suffering worst from import penetration.

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Graham Anderson considers the prospects for high quality office space in Docklands

The sheer scale of Canary Wharf

IF THE vision of Canada's Reichmann brothers is accurate – and they have not often been wrong in their careers – within the next five years or so London will have a new commercial and financial centre deep in the East End.

The Reichmanns' project is of course, Canary Wharf, the huge office and retail development which is costing their company, Olympia and York, an estimated £4bn to build.

Indeed such is its scale that some observers argue we are seeing not just a new city centre under construction but the birth pangs of a new city itself.

Canary Wharf is 24 separate developments covering 71 acres. When complete, it will put 10m sq ft of ultra-modern office space onto the London market. On top of that, the developers plan half a million sq ft of retail, restaurant and leisure facilities; a 400-bed hotel and 6,500 parking spaces.

Dominating all this will be Canary Wharf Tower. At 50 storeys and 800 feet, it will be the tallest building in the UK.

This is not a grandiose pipe-dream. Construction of the first phase of eight buildings is already well under way.

Steelwork on the tower - management contractors are a joint venture of Canadian firm Ellis-Don and Sir Robert McAlpine – is now nine storeys high. The first office blocks should be ready for tenants early in 1991. The project should be complete by 1995.

The first phase is seen as crucial. It will have to establish the right atmosphere and includes the main retail buildings, the public areas, covered car parking and the Docklands Light Railway station. It comprises roughly 4.5m square feet of floor space.

Canary Wharf under construction

Glyn Genin

Working alongside Olympia and York as overall project managers for both phases one and two is Lehrer McGovern International. And the list of engineers, architects and contractors involved reads like a who's who of the international construction business.

Architects working on phase one include Kohn, Pederson Fox; Skidmore, Owings and Merrill; I M Pei and Cesar Pelli. Among the contractors and engineers are Mowlem, Wimpey Tishman, Bovis, Ove Arup and WS Atkins.

As with the Channel Tunnel, it is easy to be carried along by the excitement of the project. But Canary Wharf has its sceptics. Does London really need so much office space?

And how will the huge workforce – possibly more than 60,000 – get to the Isle of Dogs and back? The East End's transport problems are bad enough already.

Unsurprisingly, Mr Michael Dennis, Olympia and York executive director and the man in charge of the Canary Wharf project, has few doubts.

Quite simply, there is a huge gap in the London office market for large areas of quality office space, he argues. "In terms of quality, the only project comparable with Canary Wharf is Broadgate," he says. And in scale it is unmatched.

Many City firms are now split over many sites as there are no buildings big enough to accommodate them. Canary Wharf will change that.

"We have no desire to limit our market to the financial sector," says Mr Dennis, who argues that cost will be one of Canary Wharf's trump cards. The company will offer space from £25 to £35 a square foot. And some experts argue that they could go a lot lower than that if they have to.

So, what has been the level of interest? Four firms have so far committed themselves to taking space – Credit Suisse-First Boston, Morgan Stanley International, Merrill Lynch and, most recently, Texaco.

The letting agents seem confident enough. "I feel comfortable with the level of interest we have at the moment," says Mr Jonathan Johnstone, a director of Debenham Tewson and Chinnocks. "And that interest is coming from all sectors – media, financial, oil, the professions, advertising."

Mr John Atkins, property analyst with stockbrokers UBS Phillips and Drew, is less optimistic. "Canary Wharf is going to have a battle on its hands both to let and to let at a decent rent," he says.

Vacancy rates in the City are rising and rents are forecast to drop quite sharply next year. In Docklands, developers are reported to be reducing their rents substantially to attract tenants. And this is before Canary Wharf hits the market.

Even if people say that London needs top quality office space, concern about transport links to Canary Wharf is making some firms think twice. Mr Dennis insists that a transport infrastructure will be in place – both in the short and long term – to meet the needs of Canary Wharf.

The Government is spending £1.5bn to improve the transport links around Docklands, which will rise to almost £2.5bn if the Docklands extension to the Jubilee tube line goes ahead.

But Mr Clive Lewis, president of the general practice division of the Royal Institution of Chartered Surveyors and managing director of Clive Lewis and Partners, is sceptical. "I am pessimistic about Canary Wharf's success in the short term, but cautiously optimistic in the long term. But the short term can last longer than you think." Even if the new tube line goes ahead, it will be seven or eight years before it opens, he points out.

Mr Charles Sanderson, an executive director of estate agents Savills, is more upbeat. "In 10 years' time, the transport links will be better than anywhere else," he says. "We are predicting an under-supply of new space. Canary Wharf could meet that need."

But will it be built on time and to budget? Though the record of the British construction industry has improved markedly in recent years, on projects of this scale and complexity much can go wrong.

Getting materials and equipment in and out could have been a nightmare on such a compact site. But barges have been used to bring materials in from Tilbury.

The one major unexpected problem was the steelworkers' unofficial strike earlier this year which Mr Richard Griffiths of O&Y admits set the contractors back eight weeks.

"We are attempting to claw back lost time," he says. But it seems that up to a month could have been lost for good.

Mr Griffiths argues that the scale of the project - and that fact that it is buying supplies in one lump for the whole job – has helped keep construction costs down.

If it is completed as the Reichmanns plan – and there is every sign that it will be – Canary Wharf is bound to have a massive impact on the London office market.

Mr Dennis sees the project forcing down the rents of lower quality accommodation. But he expects demand for good quality space to remain high. Canary Wharf will enable firms that need high quality space to remain in London.

If Canary Wharf is a success, it could secure the future of the whole of Docklands.

timber n. 1. wood prepared for building, carpentry etc; tree suitable for this; woods; forest; piece of wood ... any of the curved pieces ...

engrave in mezzotint; hence – ER'n. [f. It. mezzotinto f. mezzo half (see prec.) + tinto tint]

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IMPACT OF 1992

Joint ventures become more popular

A CASUAL observer taking a stroll past Britain's bustling building sites might be forgiven for thinking that 1992 had arrived already.

That is the year when members of the European Community are due to dismantle trade barriers allowing construction companies and other types of businesses to compete freely throughout the Community, unrestrained by national boundaries or local politics.

Some international developers, specialist engineers, project managers and building material companies appear to have anticipated the new common market for construction by establishing a foothold in Britain.

Japanese, Swedish and Canadian developers, Danish housebuilders, French piling contractors and Belgian steel fabricators have all been found on central London developments in the past 12 months.

Purchases by private sector developers of German curtain walling, Swiss lifts and decorative tiles from Italy last year helped swell Britain's trade deficit on building materials to a record £2.8bn – 28 per cent up on the previous year.

Much of this would have happened anyway, irrespective of the imminence of 1992. Britain has become an attractive market for foreign developers. UK construction output measured in both cash and volume terms is at a record level and has risen every year since 1981. But construction output in many continental countries, such as West Germany, languished in the mid-1980s.

US engineering consultants and project managers, such as Schal and Lehrer McGovern, now part of Bovis, have been forging partnerships with UK companies for almost a decade. They have played an important role in developing construction techniques and management in Britain.

Much of the involvement of foreign companies in the UK construction market, however, has been through investment rather than by direct competition with UK contractors and sub-contractors.

Japanese groups such as Kumagai Gumi and Obayashi and Scandinavian companies Nordstjernan and Skanska in the UK have been property developers rather than contractors. They may project-manage their developments but use mainly British contractors and sub-contractors to do the work.

Continental sub-contractors have succeeded in breaking into the British market where they been able to provide specialist skills or offer financial, or delivery, terms which British companies have been unable to match. In this they have been assisted temporarily by the rapid growth in UK construction output which has left some domestic suppliers struggling to satisfy demand.

The approach of 1992, however, has led to an increase in joint ventures and the purchase of strategic stakes by both British and continental contractors.

These have included:

□ Hollandsche Beton Groep, the largest Dutch construction group, which this summer acquired Kyle Stewart, a privately owned UK construction company in a deal thought to be worth £30m to £40m. It already owned Edmund Nuttall, the UK tunnelling specialist, acquired for £6m in 1978.

□ Hochtief, the West German construction group, earlier this year acquired a 22.9 per cent stake in Rush & Tompkins, the UK developer and contractor. Singapore Land, one of Singapore's largest property groups, has a 14.9 per cent stake in Rush & Tompkins.

□ Bilfinger & Berger, another West German construction group, in September acquired a 15 per cent stake in Birse Group, the British construction and plant hire group.

□ Société Générale d'Entreprises, the construction group, whose major shareholder is Compagnie Générale des Eaux, France's largest water supplier, in January acquired a 52 per cent stake in Norwest Holst, the British engineer.

□ Bovis, the British construction management group, has acquired a 15 per cent stake in the French builder Les Constructeurs Professionels Associes (Copra) with which it has formed a Paris-based management contracting joint venture. Bovis has formed separate joint venture companies with Senator Project Management Services of Düsseldorf and with Smelt, a Yugoslavian contractor, which will pursue construction management contracts in eastern Europe.

□ John Brown, the engineering subsidiary of Trafalgar House, the British construction, property, shipping and hotels group, has acquired a 35 per cent stake in Sofresid, France's second largest process plant developer. It has also set up a joint venture company with Sener Ingenieria y Sistemas, the Spanish construction group specialising in building process plant, nuclear power plants and aerospace defence systems.

British and continental companies have also formed one-off joint ventures to bid for major contracts. John Laing, the British construction group, has joined forces with GTM Entrepose of France to bid for the contract to build a new crossing for the River Severn, most likely by private finance.

Hollandsche Beton Groep is a member of a rival consortium led by Tarmac which is bidding for the same contract.

Laing is also in partnership with L'Entreprise Industrielle of France and Lemminkainen of Finland to build a £31.5m paper mill at Strasbourg in France for United Paper Mills of Finland.

Taylor Woodrow of the UK is part of consortium which won a DKr3.1bn (£250m) to build a road and rail bridge across the western section of the Storebaelt (great belt), the main shipping lane into the Baltic. The group is also a member of two separate consortia bidding for large irrigation and metro contracts in Greece.

Mr Walter Hogbin, Taylor Woodrow joint managing director, says British and continental companies wanting to work in each other's markets need to do so in joint ventures with a local partner who knows and understands the local market and who speaks the local language. "This will remain the same, even after 1992," he says.

Mr Tony Williams, building analyst of stockbrokers Phillips & Drew, says British and continental construction companies will prefer to take strategic stakes and forge joint ventures with each other rather than become embroiled in takeover bids which are likely to be contested.

"French construction companies prefer to operate in this way. They are used to holding reciprocal stakes in each other. This makes it very difficult for a contested bid to succeed. German banks have large holdings in domestic construction, which similarly would make it difficult to make a successful bid," says Mr Williams.

"A contracting business depends on the expertise and experience of its staff. If they leave as a result of a hostile bid, the purchaser of the company could still lose out. It makes more sense to negotiate amicable arrangements."

British contractors tend to be much larger in terms of their asset backing than their continental rivals. It is arguable whether this gives them a defensive cushion or makes them more vulnerable to a takeover attempt.

The high value of housing landbanks and property portfolios owned by large British construction companies such as Taylor Woodrow and Tarmac mean that a high price is likely to be extracted in a contested bid. On the other hand, the strong asset backing makes them more attractive as an investment than if they were just simply contractors.

There are likely to be more joint ventures and strategic stakebuilding between UK and continental companies. But contested takeover bids are not out of the question as companies jockey for position in the run-up to 1992.

Andrew Taylor

BRITISH AND French engineers, deep beneath the Channel, are tunnelling slowly towards each other. By this time next year they could be shaking hands.

Progress in digging the Channel Tunnel has improved substantially during the past 12 months. By the end of next year it should be possible to walk between Britain and the Continent for the first time since the Ice Age. The project, however, remains in deep trouble despite the improvement in tunnelling rates.

Eurotunnel, the Anglo-French group which will operate the tunnel faces a financial crisis, not for the first time. Building costs have risen dramatically and the £6bn raised with so much difficulty in 1986 and 1987 has proved insufficient to complete the project. Worse, Eurotunnel has been unable to agree with its contractors or bankers how much the extra bill will come to.

The tunnel was originally forecast to cost £4.87bn. Eurotunnel says costs have risen to approximately £7bn. Transmanche, a consortium of five British and five French construction companies contracted to design and build the tunnel, says it will cost about £7.5bn.

Technical advisers to the 200 international banks which agreed to provide Eurotunnel with £5bn of loans and standby credits have warned that costs could rise as high as £8bn if things continue to go wrong.

Even the lowest estimate of overrun means that in two years the project's estimated cost has risen by 42 per cent. Mr Alastair Morton and Mr Andre Bernard, Eurotunnel's joint chairmen, say the group will need to raise up to £1.5bn early next year, of which about a quarter is expected to come from a rights issue and the rest from international banks.

Before this money can be raised Eurotunnel, the contractors and the banks must agree revised cost estimates and establish procedures to restrict any further increase in tunnelling costs. They must also resolve differences between Eurotunnel and the contractors over which should assume financial responsibility for a large part of the rise in costs since the project began.

If agreement cannot be reached over cost increases the banks, under the terms of the loan agreement, could walk away from the project. Eurotunnel has so far drawn only £850m of the £5bn that the banks agreed to provide. The banks also hold £200m of Eurotunnel's own money as security. Yet they are unlikely to abandon the project.

They could take it over and call in a new group of contractors, possibly Japanese or South Korean. This would cause more delays and increase costs even further. A mere six-month delay would cost several hundred million pounds.

Negotiations between Eurotunnel and Transmanche have been taking place since last month, when Eurotunnel announced the extent of possible increases. Independent consultants appointed to the project under the Anglo-French Channel Tunnel Treaty are also examining the claims of Eurotunnel and the contractors. A final figure for costs may not be announced until the middle of next month.

Explanations for the large increase in costs include:

□ Big rises in general building costs in the UK. In November 1987 Eurotunnel said costs on the project would go up by 4.5 per cent in 1988. But in the event construction costs in south-east England rose 15 to 20 per cent.

□ Tunnelling delays caused by teething problems with machinery and poorer-than-expected ground conditions under the English coast. Mr Morton has blamed Transmanche management for failing to respond quickly to the delays. Digging rates on the central service tunnel have improved but ground conditions have hampered work on the two main rail tunnels on the British side. These were running seven to 12 weeks behind schedule early last month. The French rail tunnels by comparison were eight to 13 weeks ahead of schedule.

□ The need to satisfy stringent safety requirements has also increased costs. Eurotunnel plans to carry passengers and vehicles in the same railway wagons. Fire doors between the wagons will need to be able to contain smoke and flames for at least 30 minutes. Sophisticated and expensive sprinkler systems are proposed.

□ The cost of the shuttle trains which will carry cars, lorries, coaches and their passengers through the tunnel has risen from £345m to about £600m. Rolling stock suppliers say the special requirements of the Channel Tunnel project mean this is a one-off job with few economies of scale and this has pushed up the price.

□ The big area of conflict between Eurotunnel and Transmanche affects the contract to buy and instal the sophisticated equipment needed to run a modern transport system. This part of the project is covered by a fixed price contract which in principle should mean that the contractors bear the burden of any cost overrun.

However, the contractors say that Eurotunnel has upgraded the design of the railway works and should pay for any increase in costs this has caused. Eurotunnel says the construction companies failed to cost the job properly when taking on the contract.

The contract for the design and construction of the rail terminals, fitting out the buildings and installing signals, power supply and communications equipment in the tunnels was originally forecast to cost £1.14bn at 1985 prices. Transmanche says the cost, as a result of Eurotunnel's upgrading has risen to £1.86bn. Eurotunnel accepts responsibility for £1.48bn but says that the contractors must bear the rest.

The gap between the two sides, according to Mr Morton, could mean the difference between the contractors making a profit, breaking even or even making a small loss.

He agrees that Eurotunnel has changed some specifications but not as many as claimed by the contractors. "We reckon we changed a few and we have made provision for that. The question is: how much is for their account and how much is for ours? It is not for our account unless we ordered the changes."

The dilemma facing large projects is that design work is mostly incomplete when construction gets under way. To delay construction while all the drawings for a project as huge and complex as the Channel Tunnel were completed would add massively to costs. Fast-tracking, designing while construction work goes on alongside, is the only way projects like this can be financed.

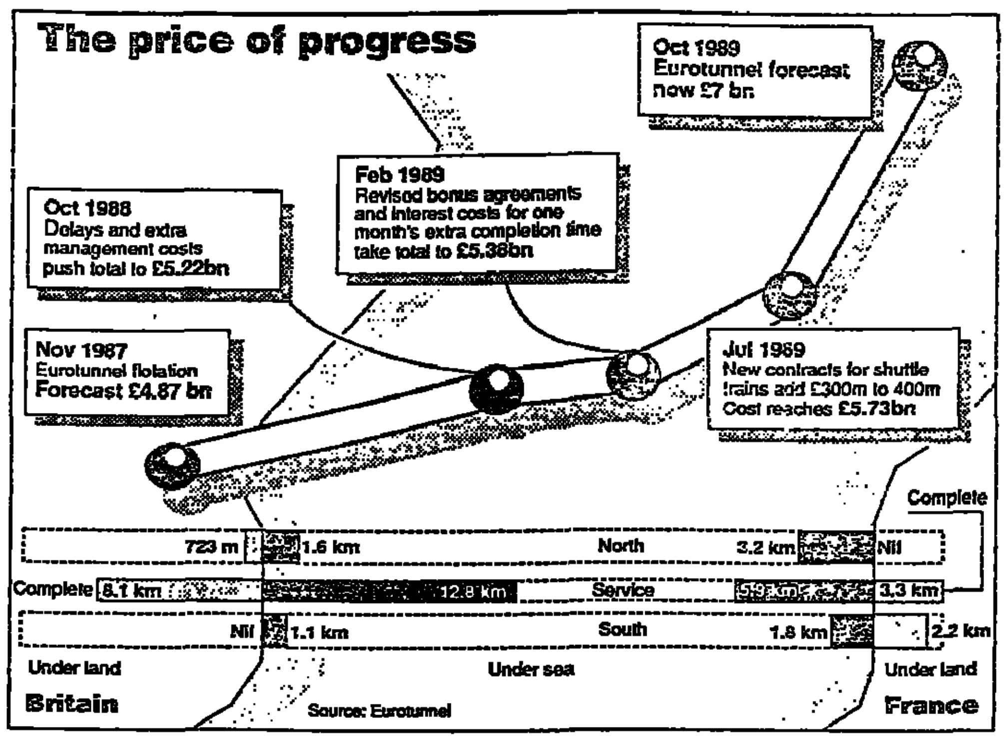
The absence of firm specifications when contracts are signed provides opportunities for argument over exactly what contractors had agreed to provide. This can lead to financial claims and counter-claims being made by contractors, sub-contractors and clients.

The Channel Tunnel is by no means the first large construction project to fall prey to mounting costs and delays. Construction in Britain during the 1970s of the Humber Bridge, the world's largest single-span suspension bridge, the Thames Barrier, which protects London from flooding and the Isle of Grain power station were all seriously delayed and completed hundreds of millions of pounds over budget (billions of pounds at today's prices).

Many of these projects were affected by serious industrial relations problems. The Channel Tunnel has not been afflicted in the same way but there must be serious concern about mounting costs in a scheme not due to be completed until June 1993.

Conflict between Eurotunnel and its contractors

Soaring cost of a tunnel



Fast-tracking is the only way projects like this can be financed

Access to contracts

EUROPEAN Community rules to ensure public bodies provide equal opportunities for foreign and domestic contractors bidding for construction work have been considerably tightened as 1992 approaches, writes Andrew Taylor.

Changes to the public works directive were approved this summer by the Council of Ministers and must be enforced within 12 months. They will lead to substantial changes in the way in which public bodies advertise and award contracts.

The new rules set up strict procedures which they must follow when putting contracts out to tender, such as stating in advance if contracts will be awarded to the lowest tender.

Public authorities will have to tell contractors why tenders have been rejected. They will be expected to specify products conforming to European or international standards rather than using local specifications to keep out suppliers from other EC countries.

All contracts worth more than Ecu 5m (about £3.4m) will have to be advertised in the Official Journal of the European Community. Previously the limit was Ecu 1m.

Among the new rules are:

□ stricter controls over public authorities which might attempt to split up contracts to avoid having to advertise them in the Official Journal.

□ a wider definition of what constitutes public works to include organisations which receive more than 50 per cent of funds for a project from public sources.

□ provisions on advertising and awarding of contracts to be widened to include public authorities placing contracts for privately financed toll bridges and toll roads.

□ public bodies will be required to give advance notice of contracts as early as possible after planning decisions have been made.

PRIVATE SECTOR INVESTMENT

Ways that may never pay off

TARMAC, Britain's biggest construction and building materials group, promoted a plan to build the UK's first privately financed motorway 10 years ago. The scheme was blocked by the Treasury: it said the public sector could build the road more cheaply.

Construction of the Black Country motorway in Britain's industrial Midlands has yet to be completed. Tarmac, however, is still vying to build Britain's first privately financed motorway.

It is a member of one of three consortia which have bid to build a privately financed £200m northern relief road around Birmingham to ease congestion on the M6.

The Transport Department this summer invited companies to bid for two privately financed toll motorways: the Birmingham northern relief road and a more costly plan to increase road capacity between Birmingham and Manchester.

The department says this could involve an extra express lane on the existing M6 for which motorists would be expected to pay a toll to enjoy less congested motoring; or, a completely new toll motorway between the two cities.

A decision on the Birmingham northern relief road is likely to be announced by Mr Cecil Parkinson, Transport Secretary, next spring.

But why after almost a decade of trying has Britain still to build its first metre of privately financed motorway?

One obstacle has been the opposition of Treasury officials who disliked the idea of a large area of national expenditure falling outside public spending controls. It is only recently that ministers conceded that private investment in roads should be allowed as additional expenditure to the annual public sector roads budget.

Construction companies had argued that there was little point in them promoting private schemes unless this led to an increase in the road programme and more work for contractors. But abolition of the Ryrie Rules which restricted ways in which private investment could be used to offset public spending is unlikely to promote an upsurge of privately-owned motorways and trunk roads.

The construction industry has given a cool reception to Government proposals aimed at making it easier for private companies to build privately-financed toll roads. These were published in a consultative paper, "New Roads by New Means" by Mr Paul Channon, the previous Transport Secretary, at the end of May.

The response of chief executives and senior directors of construction companies and financial institutions to proposals has been a "thumbs down" according to a study published last month by Touche Ross, accountants and management consultants. It said that there was among contractors considerable scepticism about the viability of potential private roads and potential returns to private investors.

Construction companies and financial institutions would not take on the risk of promoting and investing in privately financed schemes unless these generated a return at least as good as they could earn on public sector contracts, said the accountants.

The reservations of contractors and bankers included:

□ The high cost of preparing innovative schemes without any certainty of getting the contract to develop the project. Contractors are wary of taking on the cost of preparing designs only to find that schemes are put out to tender. This is likely to limit the number of schemes coming forward as companies ration development expenditure.

One contractor said: "We are bidding for the second Severn crossing and we believe it will cost over £300,000 to cover consultants' fees, extra estimating costs, traffic forecasting costs and lawyers' fees. The banks are taking on an even bigger risk. They are doing it for nothing, everything depending on a success fee."

□ The problem of persuading motorists to pay tolls when Britain already has a widely developed road system with toll-free routes which would compete with privately financed roads. Investors would need to be sure either that there were no alternative routes – or that other routes were sufficiently unattractive to persuade motorists to pay more to travel in comfort. And public highways may become less congested as private roads take some of their traffic.

□ The cost and difficulty of collecting tolls along roads with large numbers of access and exit points. Britain is more densely populated than other countries which have toll roads such as the US, France and Spain. UK motorways have tended to have more access points which would need to be policed to prevent toll evasion.

□ The Government's decision substantially to increase public investment in roads has made private schemes look less attractive. Contractors are concerned about the high initial cost of investment which will need to generate sufficient returns to satisfy private investors and cover the cost of future repairs.

Tolls, however, must not be so high that they dissuade motorists from using the road. "If you look at it coldly, as a contractor in a private sector deal, you get a worse deal than as a contractor for the Department of Transport," says a construction company executive.

Toll roads in Britain should work best where motorists would have to travel many miles to find an alternative, such as river crossings. Yet many of the 11 UK estuary and river toll crossings are loss-making – including the Humber Bridge, the world's largest single span suspension bridge.

Other opportunities for investment in public enterprises, such as the water industry, power stations and prisons, are regarded as more attractive, says Touche Ross.

Financial institutions say the Government could improve matters by giving concessions in perpetuity to originators of schemes and then getting competitive bids for construction.

Andrew Taylor

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Japan Growth	6	63.81	64.23	68.33	0.00
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Provident Mutual Unit Tst Mgrs Ltd (0905)H
25-31 Moorgate, London, EC2R 6BA. 01-588 3963

PM Equity Gth	5	116.7	116.7	124.1	2.78
PM Income & Gth	5	94.91	94.91	100.9	4.33

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
[illegible]

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Wellington Fund Mngrs Ltd (1200)F						
2, London Bridge, SE1 01-407 4406						
Wellington Income	5¼	139.8	136.3xd	145.0	5.05	40590
Wellington Growth	5¼	217.5	219.4xd	233.4	1.35	40594
Wessex Asset Management (1330)F						
1 Richmond Hill, Bournemouth BH2 6HW 0202 299432						
Wessex UK Gwth.	4½	107.0	110.0	115.5	2.98	40595
Whittingdale Unit Tst Mgmt Ltd						
2 Honey Lane, London EC2V 8BT 01-606 3132						
Challenger ♦ F	2¼	60.64	60.64xd	62.13	0.00	40596
Short Dtd Gilt ♦ F	1¼	81.82	81.82	83.01	7.17	40597
U.S. Govmt Bond ♦ F	1¼	5.5766	.5766xn	.5844	0.00	40598
Wilfire Financial Services Ltd (0905)F						
PO Box 515 Austin Friars, London EC2 01-588 7511						
Aust Friars W'wide	5	189.1	193.6	205.3	2.57	40607
Windsor Trust Mngrs Ltd (1200)F						
83 Kingsway, London, WC2B 6SD 01-405 8331						
Convtbl & Equity	5	55.81	58.95xd	62.71	7.53	41599
European	5	74.71	75.06	79.85	0.18	40585
Far Eastern	5	62.05	68.30	72.66	0.64	40584
Growth Inc	5	76.45	80.03	85.13	1.59	41600
Growth Acc	5	76.52	80.10	85.21	1.59	[illegible]
Income Inc	5	74.78	77.06	81.96	5.18	[illegible]
Income Acc	5	74.88	77.15	82.07	5.14	[illegible]
Property Share	5	48.02	48.02	51.18	1.09	[illegible]
Smaller Co's	5	49.52	49.52	51.71	1.84	41483
Nth American	5	64.56	64.56	69.04	1.58	[illegible]
International	5	47.82	47.82	51.14	1.44	[illegible]
Asset Value	5	158.72	158.72	169.74	4.43	[illegible]
Wright Seligman Fund Mngrs Ltd (1700)F						
11 Blomfield St, London EC2M 7AY 01-588 0592						
Int'l Growth	5	112.03	112.03	117.93	3.98	40604
UK Growth	5	92.66	92.66	97.54	3.08	–
UK Income	5	95.95	95.95	101.00	4.46	–
Weekly dealing day Tuesday						
The Yorkshire Unit Tst Mngrs Ltd (1100)F						
Woodsome Pt, Fenay Bdge, Huddersfield 0484 602290						
Yorkshire General	5¼	56.32	57.64	62.31	2.88	40605
YUTM UK Eqty Inc Tst	5¼	55.45	57.46	61.13	4.86	[illegible]
YUTM Intl Gwth Tst	5¼	55.78	55.78xd	59.52	0.79	[illegible]

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

Int'l Exmt November 15 ... 554.2 ... 574.81 ... 0.48 ... 40105

Cent. Bd. of Fin. of Church of England

[illegible]

INSURANCES

[illegible]

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Premium Life Assurance Co Ltd

[illegible]

Professional Life Assurance Co Ltd

[illegible]

Prolific Life & Pensions Ltd

[illegible]

Property Equity & Life Ass. Co

[illegible]

Property Growth Assur Co Ltd

[illegible]

Providence Capital Life Assc. Co Ltd

[illegible]

Provident Life Assoc Ltd

[illegible]

Provident Mutual Life Assc. Assn.

[illegible]

Prudential Assurance Co

[illegible]

Prudential Holborn Life Ltd

[illegible]

Prudential Holborn Pensions Ltd

[illegible]

Prudential Holborn Pensions Ltd—Contd.

[illegible]

Prudential Pensions Limited

[illegible]

Regency Life Assurance Co Ltd

[illegible]

Reliance Mutual

[illegible]

Royal Heritage Life Assurance Ltd

[illegible]

Royal Life Insurance Ltd

[illegible]

Royal Liver Assurance

[illegible]

Save & Prosper Group

[illegible]

Scottish Amicable

[illegible]

Scottish Equitable Life Assce. Soc.

[illegible]

Scottish Equitable Life Assce. Soc.—Contd.

[illegible]

Scottish Life Investments

[illegible]

Scottish Mutual Assurance Society

[illegible]

Scottish Mutual Investments

[illegible]

Scottish Provident Institution

[illegible]

Scottish Widows' Group

[illegible]

Shield Assurance Ltd

[illegible]

Skandia Life Assurance Co Ltd

[illegible]

Skandia Life Assurance Co Ltd—Contd.

[illegible]

Standard Life Assurance Company

[illegible]

Sun Alliance Insurance Group

[illegible]

Sun Life of Canada (UK) Ltd

[illegible]

Sun Life Unit Assurance Ltd

[illegible]

TSB Life Ltd

[illegible]

Target Life Assurance Co Ltd

[illegible]

Target Life Assurance Co Ltd—Contd.

[illegible]

Teachers' Assurance Company Ltd

[illegible]

Tunbridge Wells Equitable

[illegible]

UK Life Assurance Co Ltd

[illegible]

University Medical General Ltd

[illegible]

Wesleyan Assurance Society

[illegible]

Windsor Life Assur Co Ltd

[illegible]

Zurich Life Assurance Co Ltd

[illegible]

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

[illegible]

MANAGEMENT SERVICES

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

IoM (SIB RECOGNISED)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

SWITZERLAND (SIB RECOGNISED)

[illegible]

GUERNSEY (**)

[illegible]

JERSEY (**)

[illegible]

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
1,600	Treas 10pc 1992	95¾	12.07	17.7	21Aug 21Feb	1283
1,400	Treas. 8pc 1992 ‡‡	91	12.08	6.9	13Oct 13Apr	1337
1,288	Treas 10½ pc Cv 1992‡‡	97	11.94	2.10	7 Nov 7 May	1289
500	Treas. 3pc 1992	84½xd	9.95	6.11	11Dec 11Jan	1328
1,350	Exch. 12¼ pc '92	100	11.97	19.7	25 Feb 25 Aug	1265
1,757	Exch 13½ pc 1992	103	11.80	31.8	22Mar 22Sep	1266
950	Treas 8¼ pc 1993	90	11.64	12.7	18Aug 18Feb	–
1,850	Treas 10pc 1993‡‡	95	11.51	8.9	15Oct 15Apr	1279
1,100	Treas 12½ pc 1993‡‡	102¼	11.53	27.6	14Jan 14Jul	1296
600	Funding 6pc 1993‡‡	86	10.27	9.8	15Mar 15Sep	1276
1,250	Treas 13¾ pc 1993‡‡	107¼xd	11.40	17.10	23May 23Nov	1304
1,050	Treas. 8½ pc 1994	90	11.43	27.6	3Aug 3Feb	–
600	Treas 14½ pc 1994‡‡	110	11.22	26.7	1 Sep 1 Mar	1307
1,100	Exch 13½ pc 1994	107	11.34	20.9	27Oct 27Apr	1267
1,400	Treas. 10pc Ln. 1994‡‡	95¼xd	11.23	2.11	9Dec 9Jun	1284
1,550	Exch. 12½ pc 1994	104	11.32	17.7	22Feb 22Aug	1263
1,600	Treas 9pc 1994‡‡	91	11.14	11.10	17May 17Nov	1345

Five to Fifteen Years

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
2,350	Treas 12pc 1995	102	11.26	19.6	25Jul 25Jan	1294
229	Exch 3pc Gas 90–95	76½	3.36	25.9	1Nov 1May	1271
2,100	Exch. 10¼ pc 1995	96	11.13	14.6	21Jan 21Jul	1254
1,000	Treas 12¾ pc 1995‡‡	107	11.01	9.10	15May 15Nov	1298
900	Treas. 14pc '96	112	11.22	15.6	22Jul 22Jan	1305
750	Treas. 9pc 1992–96‡‡	91	10.88	9.8	15Sep 15Mar	1344
1,350	Treas 15¼ pc 1996‡‡	118	11.06	27.9	3Nov 3May	1309
800	Exch 13¼ pc 1996‡‡	110	11.03	9.10	15Nov 15May	1268
1,109	Conversion 10pc 1996	95	10.89	9.10	15May 15Nov	1240
1,500	Treas 13¼ pc 1997‡‡	110	10.97	15.6	22Jul 22Jan	1302
3,100	Exch 10½ pc 1997	98	10.87	17.7	21Aug 21Feb	1253
3,750	Treas 8¾ pc 1997‡‡	89	10.65	24.8	1Mar 1Sep	1341
1,000	Exch 15pc 1997	120	11.08	20.9	27Apr 27Oct	1269
2,850	Exch. 9¾ pc 1998	94	10.76	12.6	19 Jul 19 Jan	1273
1,000	Treas 6¾ pc 1995–98‡‡	80	10.36	25.9	1Nov 1May	1331
1,100	Treas. 15½ pc '98‡‡	125	10.89	24.8	30Mar 30Sep	1308
2,500	Exch. 12pc 1998	106	10.85	16.10	20May 20Nov	1259
1,250	Treas 9½ pc 1999‡‡	94	10.47	8.6	15Jul 15Jan	1347
2,900	Exch. 12¼ pc 1999	108	10.81	21.8	26Sep 26Mar	1264
1,252	Treas. 10½ pc 1999	98	10.72	13.10	19Nov 19May	1288
1,548	Conversion 10¼ pc 1999	97¼xd	10.70	16.10	22May 22Nov	1242
1,200	Treas. 8½ pc Ln 2000‡‡	87	10.42	21.6	28Jan 28Jul	1338
1,554	Conversion 9pc 2000‡‡	91	10.43	28.7	3Sep 3Mar	1244
1,817	Treas. 13pc 2000	113	10.82	27.6	14Jan 14Jul	1299
1,050	Treas 10pc 2001	96	10.54	20.7	26 Aug 26 Feb	1280
1,250	Treas. 14pc '98–01	115	11.02	16.10	22Nov 22May	1306
802	Conversion 9¾ pc 2001	94	10.50	4.7	10Feb 10Aug	1248
1,600	Exch. 12pc '99–02	106	10.88	15.6	22Jul 22Jan	1261
716	Conversion 10pc 2002	97	10.46	4.9	11 Oct 11 Apr	1241
1,450	Treas 9¾ pc 2002	95	10.43	21.7	27 Feb 27 Aug	1349
1,300	Exch. 9pc 2002	90	10.38	13.10	19May 19Nov	1272
1,800	Treas. 13¾ pc 2000–03	117	10.87	19.6	25Jan 25Jul	1303
1,000	Treas 10pc 2003	97	10.30	2.8	8 Mar 8 Sep	1281
1,900	Treas. 11½ pc 2001–04	105	10.69	14.8	19Sep 19Mar	1290
900	Treas. 10pc 2004	98	10.26	12.10	18 Nov 18 May	1282
443	Funding 3½ pc '99–04	55	8.96	29.6	14Jan 14Jul	1274
1,362	Conversion 9½ pc 2004	94	10.19	18.9	25 Apr 25 Oct	1246

Over Fifteen Years

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
1,881	Conversion 9½ pc 2005	95	10.15	11.9	18 Oct 18 Apr	1247

BRITISH FUNDS—Contd

Undated

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
276	Consols 2½ pc	25½	–	1.9	5Ja Ap Jul Oc	1238
475	Treas. 2½ pc	25¼	–	25.8	1Apr 1Oct	1315

Index-Linked

Amount £m	Stock (b)	Price £	**	Last xd	Interest Due	City-line
650	Tr. 2pc '92‡‡(97.8)	111½	3.87	17.8	23Mar 23Sep	1312
400	Do. 2 '94 (102.9)	104	3.35	10.10	16Nov 16May	–
1,000	Do. 2pc '96(67.9)	154	3.33	10.8	16Mar 16Sep	1313
900	Do 2½ pc '01(78.3)	129	3.65	18.8	24Mar 24Sep	1316
800	Do. 2½ pc '03(78.8)	126¼	3.70	16.10	20Nov 20May	1317
1,200	Do. 2pc '06(69.5)	129¼	3.70	12.6	19Jan 19Jul	1314
950	Do. 2½ pc '09(78.8)	120	3.69	16.10	20Nov 20May	1318
1,350	Do. 2½ pc '11(74.6)	125	3.68	17.7	23Feb 23Aug	1319
1,100	Do. 2½ pc '13(89.2)	104	3.66	10.7	16Feb 16Aug	1320
1,700	Do. 2½ pc '16(81.6)	112	3.61	19.6	26Jan 26Jul	1321
1,400	Do. 2½ pc '20(83.0)	110½	3.55	11.9	16Oct 16Apr	1322
900	Do. 2½ pc '24‡‡(97.7)	93	3.50	12.6	17Jan 17Jul	1323

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for March 1989:112.3 and for October 1989:117.5

INT. BANK AND O'SEAS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
50	African Dv Bk 11¼ Ln 2010	99	11.09	1.12	4 Jan 4 Jun	–
100	Asian Dev Bk 10¼ pcLn2009	95	10.67	28.3	24Mar 24Sep	–
100	Australia 13½ pc 2010	118	11.04	23.12	28Jan 28Jul	–
100	Do. 11¾ pcLn2015	102	10.98	22.3	26Apr 26Oct	–
75	Euro Inv Bk 11pc Ln 2002	100	10.85	23.2	23Mar 23Sep	–
100	Do. 10⅜ pc2004	95	10.84	24.10	Apr Nov	–
75	Int-Am Dev Bk 12½ pc 2003	109	11.03	7.12	8Jan 8Jul	–
175	Do. 9¾ pcLn 2015	90	10.71	13.10	15 May 15 Nov	–
75	Mlysia 10¾ pcLn 2009	92	11.66	23.12	31 Jan 31 Jul	–
50	Utd. Mexican States 16½ pc 2008	114	14.20	24.1	1Mar 1Sep	–

CORPORATION LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
32	Birmingham 13½ pc 1989	99½xd	11.20	20.10	20 May 20 Nov	1838
45	Do. 11½ pc 2012	101½xd	11.38	13.10	15May 15Nov	1837
40	GLC 6¾ pc 1990–92	87½xd	13.70	17.7	15Feb 15Aug	2647
40	Leeds 13½ pc 2006	117½	11.06	11.9	1Apr 1Oct	3146
5	Liverpool 3½ pc Irred	30xd	–	1.9	1Ja Apr Ju Oc	3169
25	LCC 6¾ pc '88–90	94½	12.80	14.7	10Jan 10Jul	3198
26	Do. 3pc '20 Aft	28xd	–	1.11	1Mar Ju S D	3197
7	Manchester 11½ pc 2007	101½xd	11.30	29.9	25Apr 25Oct	3275

COMMONWEALTH & AFRICAN LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
14	NZ 7¼ pc 1988–92	87½	12.40	1.12	1Jan 1Jul	–
–	S Rhod 2½ pc Non-Asstd.	206	–	–	1Apr 1Oct	–
4	Do. 4½ pc 87–92 Asstd.	84½	9.33	14.7	7Feb 7Aug	–

LOANS

Building Societies

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due
20	N'wide Anglia 12¾ pc 4.12.89	99¾	15.10	28.4	28May 4Dec
20	Do. 12⅝ pc 2.1.90	99	15.30	30.5	2Jan 28Jun
20	Do. 12⅞ pc 29.1.90	99	15.23	23.6	29Jan 23Jly
–	Do. 12⅝ pc 26.2.90	99	15.21	21.7	26Feb 20Aug
–	Do. 12¾ pc 19.3.90	99	15.14	–	19Mr 13Sep
20	Do. 13⅛ pc 23.4.90	99¼xd	15.10	18.9	23Apr 17Oct
20	Do. 13pc 14.5.90	99	15.04	9.10	14May 8Nov
–	Do. 13⅝ pc 4/6/90	99	14.98	–	4Jun 30Nov
–	Do. 14⅛ pc 2.7.90	99	14.90	–	2Jly 26Dec
–	Do. 13⅝ pc 23.7.90	99½	14.82		
20	Do. 13¼ pc 13.8.90	99	14.71		7Feb 13Aug
20	Do. 13¼ pc Bds 3.9.90	99	14.61		28Feb 3Sep
60	Do. 3⅞ pcIL Ln 2021	107¼xd	4.20	22.6	30Jan 31Jul
–	Do. 4.25pcIL '24	106		–	–

Public Board and Ind.

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due
25	Met. Wtr. 3pc 'B'	46xd	10.62	1.8	1Mar 15Sep

FOREIGN BONDS & RAILS

Amount £m	Stock	Price £	Div % Gross	Yld	Last xd	Interest Paid
7	Greek 7pc Ass.	40	3.50	8.75	1.11	1May 1Nov
4	Do. 6pc 28 Stb. Ass.	40	3	7.50	1.2	1Feb 1Aug
–	Do 4pc Mixed Ass.	40	2	5.00	3.4	1Apr 1Oct
1	Hung. '24 Ass.	80	2.75	3.57	3.5	1May
40	Hydro Quebec 15pc 2011	127¾	15.00	11.43	27.10	31May 30Nov
30	Iceland 14½ pc Ln 2016	115	14.50	12.39	29.12	31Jan 31Jul
30	Ireland 9¾ pc '91–96	90	9.75	11.85	21.8	1Mar 15Sep

AMERICANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid
9,429.2	Abbott Laboratories	41	$1.40	2.1	11.7	Fb My Ag Nv
230.7	Allegheny & W 1c.	444p	30c	4.3	–	
1,895.3	Amax $1	15½	80c	3.3	7.8	Mr Je Se De
343.2	Ambase Corp $1	8¼	20c	1.5	24.2	Jan Mar Ju Dc
741.3	Amdahl 5c	706p	h10c	0.9	31.1	Mr Mr Ju Ag
3,046.8	Amer. Cyanamid $5	33½	$1.35	2.6	27.2	Mr Je Se De
10,903.7	Amer. Express 60c	21	84c	2.4	3.7	Fb My Ag Nv
29,702.6	American T. & T. $1	27½	$1.20	2.8	27.5	Fb My Ag Nv
16,219.8	Ameritech $1	38	$2.92	4.9	28.3	Fb My Ag Nv
–	Aslamerica Equity	563p	–	–	–	–
3,441.1	BankAmerica $1	19	60c	2.0	17.5	Fe My Au No
2,327.9	Bankers N.Y. $1	29	$2.12	4.6	31.3	Ap Jy Oc Jan
12,975.8	Bell Atlantic $1	65½	$4.40	4.3	27.6	Fe My Au No
15,641.2	BellSouth Corp.	32½	$2.52	4.9	6.7	Fe My Au No
771.3	Bethlehem Steel $8	10½	40c	2.4	6.2	Mar Jun S D
–	Bio-Rad Labs. A	10½	–	–	–	–
624.2	Bowater Inc.	17	$1.12	4.2	6.6	Oc Ja Ap Jy
746.9	Brunswick 75c	8½	44c	3.3	20.7	F My Au N
3,655.6	CPC Intnl. 25c	44½	$1.80	2.6	25.9	Jan Ap Jly O
134.4	California Engy	738p	–	–	–	–
4,176.3	Campbell Soup 15c	32½	92c	1.8	3.7	Oc Ja Ap Jy
1,867.3	Chase Manhattan $12½	22	$2.36	6.5	27.7	Fb My Ag Nv
2,301.0	Chem. Banking Corpn.	20½	$2.72	8.3	12.6	Ap Jy Oc Ja
2,789.4	Chrysler $6¼	12½	$1.20	6.0	14.6	Mar Jun S D
6,181.5	Citicorp $1	19	$1.62	5.3	25.4	My Au N F
2,699.7	Colgate-Palmolive $1	39½	$1.48	2.4	20.7	F My Au N
1,440.0	Cont'l Bank Corp $4	14¼	80c	3.6	31.5	Dc Mr Ju Sp
–	Corporate Data Science	310p	–	–	–	–
968.9	Dana Corp. $1	21½	$1.60	4.7	29.8	Mr Jn Se De
243.1	Data General	881p	–	–	–	–
5,016.6	Dun & Bradstreet $1	27	$2.00	4.7	13.2	Mr Jn Sp Dc
1,464.3	Eaton Corpn. 50c	34¼	h$2.00	3.7	2.8	F My Au N
527.0	Echlin Inc.	8¾	70c	5.0	30.6	JanAprJulOct
2,885.7	FPL Group 1c	21¼	$2.28	6.6	23.11	MrJuSepDec
1,621.1	Fluor Corp 62½ pc	19¾	16c	0.5	–	J A J O
14,890.0	Ford Motor $1	28¼	$3.00	6.7	28.7	Mar Jun S D
35,295.8	Gen. Elect. 63c	36½	$1.88	3.3	7.6	Ja Ap Je Oc
–	General Host Corp $1	365p	30c	5.2	13.12	–
3,398.3	Gillette $1	29	96c	2.1	27.1	Mar Jun S D
158.7	Gt American Bank Bk $1	484p	20c	2.6	28.10	Fb My Ag Nv
765.2	Greyhound $1½	19¼	$1.32	4.2	30.5	Ja Ap Jy Oc

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AMERICANS – Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
726.2	Hasbro Inc 50c	13¼	16c	0.7	1.8	Ja No Au My	–
2,254.4	Honeywell $1½	51	$2.75	3.4	22.8	Mar Jun S D	2919
2,625.6	Houston Inds.	22	$2.96	8.5	10.11	Mr Jn Se De	–
36,644.1	IBM Corpn $1¼	61½	$4.84	5.0	5.5	Mar Jun S D	2986
1.06	Image Storage/R.Sys	50p	–	–	–	–	2961
1,520.3	Ingersoll-Rand $2	28	$1.20	2.6	16.5	Mar Jun S D	2979
1,730.3	Lockheed Crpn $1	26½	$1.80	4.3	15.2	Mar Jun S D	–
224.8	Lone Star Inds $1	13½	$1.90	8.8	30.8	May Se N Mar	3216
787.2	Louisiana Land 15c	25½	$1.00	2.5	29.8	Mar Jun S D	3222
733.2	Lowe's 50c	18½	48c	1.6	11.7	Jan Ap Jly Oc	–
1,182.4	Manuf. Hanover $1	24½	$3.28	8.4	26.6	Jan Ap Jly Oc	3279
1,723.2	Merrill Lynch $1	16	$1.00	3.4	31.10	Feb My Au N	3351
554.7	Molex Inc	2186p	3.2c	–	–	–	3397
4,942.9	Morgan (JP) $2½	27½	$1.66	3.8	21.12	Jan Ap Jly O	3418
26,016.8	Morris (Philip)	26½	$1.13	2.7	12.10	–	5161
10,928.8	NYNEX $1	51	$4.36	5.4	27.6	F May Au N	4740
2.70	N wide Legal Serv	20p	–	–	–	–	5121
385.5	PHH Corp.	23	$1.16	3.2	4.4	Ja Ap Jy Oct	–
–	Pacific Agr.	174p	–	–	–	–	–
1,948.1	Pacificorp $3¼	28	$2.76	6.0	18.7	Feb My Ag N	–
12,065.4	Pacific Telesis 10c	28	$1.88	4.2	12.85	Fe My Au No	–
777.0	Pall Corp 25c	21	48c	1.4	24.1	Fe My Au No	–
2,054.8	Pennzoil 83 1/3c	50	$3.00	3.8	29.8	Mar Jun S D	3630
3,145.8	Quaker Oats $5	39½	$1.40	2.2	20.6	Jly Oc Jan Apr	3738
754.7	Rep NY Corpn $5	30¼	$1.28	2.7	12.9	Jan Apr Jly O	3814
4,319.5	Rockwell Intl. $1	14½	78c	3.4	9.8	Mr Jn Se De	3847
6,922.9	Sears, Roebuck 75c	24	$2.00	5.3	23.8	Jan Apr Jly Oc	5191
10,502.6	Southwestern Bell $1	35½	$2.60	4.7	5.7	Fb My Ag No	–
2,568.3	Sun Co. Inc. $1	24½	$1.80	4.7	7.8	Mr Jn Se De	4135
[illegible]	TRW Inc. 62½c	29½	$1.72	3.7	8.8	Ma Jn Se De	4318

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES – Contd

ELECTRICALS

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

INSURANCES

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING — Contd

[illegible]

PROPERTY

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES — Contd

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND — Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS — Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

MINES — Contd

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

Stock	Price	Div Net	Cvr	Yld Gr's	P/E	Dividends Paid	City Line
[illegible]							
0.31 Systems Connection 2½p.	2½	-	-	-		-	5152
9.98 Tavern Leis. 20p...	39	-	-	-		-	4867
10.2 Tomorrows Leisure 20p	91	-	-	-		-	4248
For Tullow Oil see Oils & Gas							
2.62 UPL Group 10p......	65	2.75	5.6	22.5		Dec. July	4362
6.85 Unit Group.........	129	5.0	5.2	3.7		Jan Aug	4357
6.95 Video Magic Leis. 1p	79	W2.0	3.4	-		Jan July	5071
4.57 Vista Ents 5p.......	5	-	-	-		-	3994
12.3 Vizcaya Hldgs 5p..	23	-	-	-		-	4193
59.2 Whitegate Leisure 20p.	38	-	-	-		-	1105
1.67 Do. Wrrnts.........	25	-	-	-		-	1116
23.5 Wilton Group 1p...	5¼	-	-	-		-	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

● "Tap Stock"
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Not officially listed.
# Price at time of suspension
¶ Indicated dividend after pending scrip and/or rights issue.
♦ Merger bid or reorganisation in progress
♦ Not comparable
♦ Same interim; reduced final and/or reduced earnings indicated
§ Forecast dividend.
‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
★ Cover does not allow for shares which may also rank for dividend at a future date.
‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xe ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or -
Albany Inv 20p....	87	......
Craig & Rose £1..	830xd	......
Finlay Pkg. 5p....	66	......
Holt (Jos) 25p.....	1340	-3

IRISH

Stock	Price	+ or -
Cap. 8½% Ln. 1991....	£96⅛	......
9pc Cap Ln. 1996..	£97	-⅛
Fin. 13% 97/02..	£116	......
Arnotts..............	405xd	......
Carrol (P.J.)......	143	......
Hall (R. & H.)......	290	+38
Heiton Hldgs.......	88	......
IRG..................	228	......
United Drug........	130	......

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	41
Amstrad	6½
Aspec (BSR)	5¼
BAT	67
BOC Grp.	44
BTR	37
Barclays	40
Blue Circle	28
Boots	23
Bowaters	39
Brit Aerospace	46
British Steel	9
Brit. Telecom	22
Cadburys	31
Charter Cons	42
Comm Union	40
Courtaulds	31
Eurotunnel	65
FKI	8
FNFC	22
Gen Accident	92
GEC	19
Glaxo	128
Grand Met	44
Guardian	19
GKN	33
Hanson	18
Hawker Sidd	55
ICI	90
Jaguar	85
Ladbroke	25
Legal & Gen	31
Lex Service	26
Lloyds Bank	31
Lucas Inds	54
Marks & Spencer	16
Midland Bk	26
Morgan Grenfell	38
Nat West Bk	23
P & O Dfd	51
Polly Peck	38
Racal Elect	28
RHM	39
Rank Org Ord	72
Reed Intnl	34
STC	25
Sears	9
SmKl. Beecham A	48
TI	38
TSB	9
Tesco	16
Thorn EMI	63
Trust Houses	23
T&N	16½
Unilever	57
Vickers	22
Wellcome	55

Property	p
Brit Land	27
Control Secs	5
Land Securities	45
MEPC	45
Mountleigh	13

Oils	p
Brit Petroleum	25
Burmah Oil	65
Charterhall	2½
Conroy Petlm	9
Premier	18½
Shell	37
Tuskar Res	12
Ultramar	28½

Mines	p
Lonrho	23
RTZ	45

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £985 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

POUND SPOT- FORWARD AGAINST THE POUND

[illegible]

Commercial rates taken towards the end of London trading. Belgian rate is convertible francs. Financial franc 60.60-60.70 Six-month forward dollar 4.80-4.75cpm 12 Months 8.57-8.47cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Nov 17	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5640 - 1.5790	1.5685 - 1.5695	0.84-0.82cpm	6.35	2.51-2.48pm	6.36
Ireland†	1.4365 - 1.4415	1.4400 - 1.4410	0.30-0.26cpm	2.34	1.17-1.07pm	3.11
Canada	1.1680 - 1.1700	1.1690 - 1.1700	0.34-0.37cdis	-3.65	1.05-1.13dis	-3.73
Netherlands	2.0730 - 2.0820	2.0780 - 2.0790	0.04-0.02cpm	0.17	0.04-parpm	0.04
Belgium	38.55 - 38.70	38.60 - 38.70	3.50-5.50cdis	-1.40	11.00-15.00dis	-1.34
Denmark	7.14 - 7.18	7.15½ - 7.16	2.30-2.65oredis	-4.15	6.85-7.35dis	-3.97
W. Germany	1.8365 - 1.8450	1.8420 - 1.8430	0.11-0.09pfpm	0.65	0.12-0.09pm	0.23
Portugal	158.35 - 158.70	158.50 - 158.60	0.63-0.73cdis	-0.05	2.70-2.95dis	-0.07
Spain	116.85 - 118.25	117.60 - 117.70	48-58cdis	-5.39	172-182dis	-6.00
Italy	1350½ - 1357½	1354¾ - 1355¾	4.30-4.80liredis	-4.03	13.70-14.70dis	-4.19
Norway	6.89½ - 6.92	6.91½ - 6.92	1.55-1.90oredis	-2.99	5.45-5.85dis	-3.27
France	6.25 - 6.27¼	6.26¼ - 6.26¾	0.87-0.92cdis	-1.71	3.05-3.20dis	-1.99
Sweden	6.43¾ - 6.45¾	6.44¾ - 6.45¼	1.65-1.90oredis	-3.30	5.65-6.00dis	-3.61
Japan	143.80 - 144.45	144.35 - 144.45	0.28-0.26ypm	2.25	0.68-0.65pm	1.85
Austria	12.96 - 12.98¼	12.97 - 12.97½	0.15pm-0.25gdis	-0.18	0.30-1.70dis	-0.31
Switzerland	1.6270 - 1.6375	1.6325 - 1.6335	0.17-0.14cpm	1.14	0.27-0.22pm	0.60
ECU	1.1110 - 1.1125	1.1115 - 1.1125	0.18-0.17cpm	1.89	0.62-0.59pm	2.18

Commercial rates taken towards the end of London trading † UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 38.60-38.70.

MONEY MARKETS

Implications of a rising D-Mark

THE FURORE surrounding the D-Mark died down at the end of last week, but the West German currency still looks attractive. Strong growth and a central bank prepared to act against inflation make the D-Mark a likely candidate for improvement.

UK clearing bank base lending rate 15 per cent from October 5

No one knows how far the liberalisation of East Germany will go and whether German reunification over time is politically possible, but the implications of events so far could be inflationary for West Germany. The present rate of 3.3 per cent is among the lowest in Europe, but if this relatively low rate of inflation is threatened, the Bundesbank is likely to act with another rise in interest rates.

The probable direction of official rates is illustrated by the fact that Eurodollar rates have a downward sloping, or reversed, yield curve, but Euro D-Mark rates have an upward sloping yield curve. This suggests a weakening US economy will prompt an easing of the Federal Reserve's monetary stance, but that Bundesbank will pursue a tight monetary policy if events demand.

This, of course, could have some unpleasant implications for the rest of Europe. Higher German rates would almost certainly be followed by a revaluation of the D-Mark in the European Monetary System, even if other EMS members also tightened.

The Autumn Statement, pointing to a rather stagnant British economy, does not appear to give much option of higher UK interest rates. Sterling may, therefore, have to take the strain, and this was indicated by the pound's fall below DM2.90 last week.

£ IN NEW YORK

Nov.17	Close	Previous Close
£ Spot	1.5670-1.5677	1.5760-1.5770
1 month	0.85-0.83pm	0.83-0.82pm
3 months	2.52-2.48pm	2.49-2.47pm
12 months	8.57-8.47pm	8.53-8.43pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Nov.17	Previous
8.30 am	88.7	88.7
9.00 am	88.7	88.7
10.00 am	88.5	88.7
11.00 am	88.5	88.5
Noon	88.4	88.5
1.00 pm	88.4	88.6
2.00 pm	88.3	88.7
3.00 pm	88.0	88.5
4.00 pm	88.1	88.6

CURRENCY RATES

Nov.16	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling #	-	1.23801	1.41839
U.S Dollar	7	1.27277	1.11148
Canadian $	12.46	1.48863	1.30120
Austrian Sch.	6½	16.5244	14.4347
Belgian Franc	10¼	49.2530	43.0085
Danish Krone	10½	9.12767	7.97539
Deutsche Mark	6.00	2.34622	2.04978
Neth.Guilder	7.00	2.64927	2.31298
French Franc	10¼	7.98090	6.97062
Italian Lira	13½	1725.59	1506.77
Japanese Yen	3¾	183.088	160.275
Norway Krone	8	8.80884	7.69252
Spanish Peseta	-	149.500	130.765
Swedish Krona	9½	8.20682	7.17235
Swiss Franc	6.00	2.07652	1.81560
Greek Drach.	20½	210.340	183.705
Irish Punt	-	0.884611	0.771858

Sterling quoted in terms of SDR and ECU per £.
† European Commission Calculations.
* All SDR rates are for Nov.16

CURRENCY MOVEMENTS

Nov.17	Bank of England Index	Morgan** Guaranty Changes %
Sterling	88.1	-22.5
U.S Dollar	70.0	-8.4
Canadian Dollar	105.4	+1.9
Austrian Schilling	108.2	+11.0
Belgian Franc	107.6	-4.8
Danish Krone	105.9	+0.6
Deutsche Mark	115.7	+22.9
Swiss Franc	106.5	+15.2
Guilder	112.4	+14.9
French Franc	101.1	-14.2
Lira	99.3	-19.3
Yen	134.9	+65.1

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) **Rates are for Nov.16 .

OTHER CURRENCIES

Nov.17	£	$
Argentina	1018.70 - 1026.90	660.00 - 665.00
Australia	2.0010 - 2.0035	1.2775 - 1.2785
Brazil	9.7545 - 9.8070	6.2240 - 6.2550
Finland	6.6730 - 6.6935	4.2690 - 4.2710
Greece	258.75 - 263.25	163.90 - 166.60
Hong Kong	12.2320 - 12.2450	7.8115 - 7.8135
Iran	114.30*	72.20*
Korea(Sth)	1051.40 - 1068.40	669.70 - 674.90
Kuwait	0.4710 - 0.4725	0.2985 - 0.2995
Luxembourg	60.60 - 60.70	38.60 - 38.70
Malaysia	4.2340 - 4.2450	2.7040 - 2.7060
Mexico	4127.70 - 4146.05	2635.00 - 2645.00
N. Zealand	2.6580 - 2.6640	1.6965 - 1.6995
Saudi Ar.	5.9160 - 5.9220	3.7505 - 3.7515
Singapore	3.0675 - 3.0735	1.9595 - 1.9615
S. Af (Cm)	4.1195 - 4.1305	2.6300 - 2.6330
S. Af (Fn)	6.1730 - 6.2970	3.9370 - 4.0160
Taiwan	40.45 - 40.55	25.80 - 25.85
U.A.E.	5.7925 - 5.7980	3.6720 - 3.6730

*Selling rate

EURO-CURRENCY INTEREST RATES

Nov 17	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	14⅞-14¾	14⅞-14¾	15⅛-15	15⅛-15	15-14¾	14⅝-14½
US Dollar	8½-8⅜	8½-8⅜	8½-8⅜	8½-8⅜	8⅜-8¼	8¼-8⅛
Can. Dollar	12-11¾	12⅛-11⅞	12⅛-11⅞	12⅛-11⅞	12-11¾	11⅞-11⅝
D. Guilder	8⅜-8⅛	8⅜-8⅛	8½-8⅜	8⅝-8½	8¾-8⅝	8⅞-8¾
Sw. Franc	6⅝-6⅜	7-6¾	7⅜-7⅛	7⅝-7⅜	7⅝-7⅜	7⅝-7⅜
Deutschmark	7⅝-7½	7⅝-7½	7⅞-7⅝	8¼-8⅛	8⅜-8¼	8⅝-8½
Fr. Franc	10¼-10⅛	10¼-10⅛	10⅜-10¼	10⅝-10½	10⅝-10½	10⅝-10⅜
Italian Lira	12-10	12¼-11¾	12⅝-12⅛	12⅝-12⅛	12⅝-12⅛	13-12⅝
B. Fr. (Fin)	9⅝-9½	9⅞-9⅝	9⅞-9⅝	9⅞-9⅝	9⅝-9⅜	9⅝-9⅜
B. Fr. (Con)	9⅝-9½	9⅝-9½	10⅛-9⅞	10⅛-9⅞	10-9⅝	9⅞-9½
Yen	6⅜-6¼	6⅜-6¼	6½-6⅜	6⅝-6½	6⅝-6½	6⅝-6½
D.Krone	12⅝-12⅛	12⅝-12⅛	12½-12⅛	12½-12⅛	11⅞-11⅝	11⅞-11⅝
Asian $Sing	8⅜-8¼	8⅜-8¼	8½-8⅜	8½-8⅜	8⅜-8¼	8¼-8⅛

Long term Eurodollars: two years 8⅜-8¼ per cent; three years 8½-8⅜ per cent; four years 8⅝-8½ per cent; five years 8⅝-8½ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Nov.17	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.569	2.890	226.5	9.83	2.563	3.260	2126	1.838	60.65
$	0.637	1	1.842	144.4	6.265	1.634	2.078	1355	1.171	38.66
DM	0.346	0.543	1	78.37	3.401	0.887	1.128	735.6	0.636	20.99
YEN	4.415	6.927	12.76	1000.	43.40	11.32	14.39	9386	8.115	267.8
F Fr.	1.017	1.596	2.940	230.4	10.	2.607	3.316	2163	1.870	61.70
S Fr.	0.390	0.612	1.128	88.37	3.835	1	1.272	829.5	0.717	23.66
H Fl.	[illegible]						1			
Lira	[illegible]									
C $	[illegible]									
B Fr.	[illegible]									

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

CHICAGO

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

[illegible]

+16.6	2.21	150.79	141.87	143.74	155.92	136.67	136.16
+20.5	3.47	133.55	125.47	130.11	140.43	114.51	111.79
+16.7	2.22	150.87	141.75	143.74	155.89	136.68	136.05

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).
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CONSTITUENT CHANGES: The market capitalisations of Bergen Bank, Dyno Industrier and Norske Skogindustrier (Norway) have been adjusted following changes in foreign ownership restrictions.

EUROPEAN OPTIONS EXCHANGE

[illegible]

BASE LENDING RATES

Bank	%	Bank	%	Bank	%
ABN Bank	15	City Merchants Bank	15	Mount Banking	15
Adam & Company	15	Clydesdale Bank	15	Nat Bk. of Kuwait	15
Allied Trust Bank	15	Comm. Bk. N. East	15	NatWestminster	15
Allied Irish Bank	15	Co-operative Bank	*15	Northern Bank Ltd	15
● Henry Ansbacher	15	Coutts & Co	15	Norwich Gen. Trust	15
Associates Cap Corp	14	Cyprus Popular Bk	15	PRIVATbanken Limited	15
Authority Bank	15	Dunbar Bank PLC	15	Provincial Bank PLC	16
● B & C Merchant Bank	15	Duncan Lawrie	15	R. Raphael & Sons	15
Bank of Baroda	15	Equatorial Bank plc	15	Roxburghe G'rantee	15½
Banco Bilbao Vizcaya	15	Exeter Trust Ltd	15½	Royal Bk of Scotland	15
Bank Hapoalim	15	Financial & Gen. Bank	15	Royal Trust Bank	15
Bank Credit & Comm	15	First National Bank Plc.	16	● Smith & Williamson Secs.	15
Bank of Cyprus	15	● Robert Fleming & Co.	15	Standard Chartered	15
Bank of Ireland	15	Robert Fraser & Ptnrs.	15½	TSB	15
Bank of India	15	Girobank	15	United Bk of Kuwait	15
Bank of Scotland	15	● Guinness Mahon	15	United Mizrahi Bank	15
Banque Belge Ltd	15	HFC Bank plc	15	Unity Trust Bank Plc	15
Barclays Bank	15	● Hambros Bank	15	Western Trust	15
Benchmark Bank PLC	15	Hampshire Trust Plc	15½	Westpac Bank Corp.	15
Brit. Bk of Mid East	15	Heritable & Gen Inv Bnk.	15	Whiteaway Laidlaw	15
● Brown Shipley	15	● Hill Samuel	§15	Yorkshire Bank	15
Business Mtge Bank PLC	15½	C. Hoare & Co.	15		
CL Bank Nederland	15	Hongkong & Shangh	15		
● Charterhouse Bank	15	● Leopold Joseph & Sons	15		
Citibank NA	15	Lloyds Bank	15		
		McDonnell Douglas Bnk	15		
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20th November, 1989

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ACROSS
1 Piano in band: recipe for club entertainer (8)
5 A first-class place for a drink back in the Middle East (6)
9 Nice account by clergyman (8)
10 Delivered in drum: a sticky resin (6)
11 Hot subject for discussion by a liberal around the end of summer (8)
12 Rossini – extremely smooth and licentious? (6)
14 Dismissal involving rotund characters making noise in cinema? (5-5)
18 A French professor yet to be convinced? (10)
22 Vegetables common by the beginning of spring (6)
23 Combustible gas ignited by small amount of electricity (8)
24 Early? Eventually! (2,4)
25 Drive out and see royal abode (8)
26 About turn – go on rambling (6)
27 Channel engineer first to economise (8)

DOWN
1 City's skill well-hidden (6)
2 Minister demands argon-free nuclear engine (6)
3 Filch ring from timber support (6)
4 Man in field needing supplementary insurance (5,5)
6 One's artless fancy about practical people (8)
7 Despicable act by a later management (8)
8 Beethoven trio considered pre-eminent by Ellington (8)
13 Hazy kind of article (10)
15 Where you may get bogged down with lots of paper about the meeting (8)
16 Protestant target – gold? (8)
17 Scots manuscript turns up – in clean version, by the way (8)
19 PC Skinner? (6)
20, 21 Parliamentary girl talk? (6,6)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday December 2.

WORLD STOCK MARKETS

AUSTRIA | FRANCE (continued) | GERMANY (continued) | ITALY (continued) | SWEDEN | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | NETHERLANDS | SWITZERLAND | NORWAY | SPAIN | SOUTH AFRICA | JAPAN | AUSTRALIA | AUSTRALIA (continued) | HONG KONG | SINGAPORE

[illegible]

CANADA

TORONTO
Closing prices November 17

[illegible]

MONTREAL
Closing prices November 17

[illegible]

INDICES

NEW YORK

DOW JONES

[illegible]

STANDARD AND POOR'S

[illegible]

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Gen Electric	3,113,300	59½	+ 2
Union Carbide	2,489,100	23⅞	+ ⅝
IBM	2,277,300	99⅛	+ 2
Unisys Corp	2,206,300	14½	− ⅛
Hewlett Pkd	2,185,400	44½	+ 3¼
Dun & Br'dstret	2,182,900	42⅞	+ ⅛
Philip Morris	2,051,800	41½	+ ⅛
Am Express	1,870,200	34⅛	---
Houston Inds	1,198,500	34⅛	− ⅛
Bristol Myers	1,144,500	55⅝	+ ¼

TRADING ACTIVITY

† Volume Millions	Nov 17	Nov 16	Nov 15
New York	151,020	149,283	156,130
Amex	13,980	11,924	11,992
NASDAQ	(u)	146,645	133,010
Issues Traded	1,958	1,968	1,967
Rises	770	728	920
Falls	683	739	579
Unchanged	505	501	468
New Highs	52	74	56
New Lows	42	50	61

CANADA

TORONTO	Nov 17	Nov 16	Nov 15	Nov 14	1989 HIGH	1989 LOW
Metals & Minerals	3403.61	3371.45	3418.02	3409.51	3919.2 (1/9)	3207.5 (3/1)
Composite	3957.57	3946.02	3968.66	3943.09	4037.8 (6/10)	3350.5 (6/1)
MONTREAL Portfolio	2017.66	2007.86	2014.62	2005.50	2069.68 (10/10)	1677.48 (3/1)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

[illegible]

TOKYO - Most Active Stocks
Friday November 17 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Tokyu	32.7m	3,040	+20	Keisei Railway	19.8m	3,050	+100
Marubeni	30.6m	980	+10	Mitsui & Co	13.8m	1,200	+10
Yasuda F&M	26.9m	1,880	-10	Mitsubishi Oil	12.9m	1,720	0
Sumitomo Metal	22.2m	1,970	+30	Hanishin Rail	11.7m	1,420	-10
Tobu Rlwy	22.1m	1,830	+30	Mitsui Rl Est	10.8m	3,100	-40

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FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

4pm prices November 17

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	21¾	AAR	.48	1.4	21	213	34½	33½	34½	+1⅛
9⅝	8⅝	ACM n	1.01	11.		126	9½	9⅜	9½	
11⅝	10¼	ACMIn	1.26	11.		396	11½	11¼	11¼	– ⅛
10⅛	8	ACM M	n1.01	12.		451	8¾	8⅝	8⅝	
11½	10	ACM Sc	1.26	11.		1191	11⅜	11¼	11¼	– ⅛
9⅝	8⅜	ACMSp	1.01	11.		486	9¼	9⅛	9⅛	
18	11½	AL Lab	.12	.8	16	117	16⅛	15⅞	16	
4⅛	3⅛	AMCA	.12r	3.6	23	74	3½	3⅜	3⅜	– ⅛
6⅛	4½	AM Ind			12	1610	5⅝	5⅜	5½	
23½	19⅞	AM In pf	2	9.9		28	20½	20⅛	20⅛	– ⅛
107¼	46½	AMR			8	5599	69½	67⅛	67¼	–2⅛
27	25	ANR pf	2.67	10.		1	25¾	25¾	25¾	+ ¼
6½	3⅝	ARX				64	4	3⅞	3⅞	
54⅝	37¼	ASA	3a	5.7		1328	53⅜	52¼	52½	+ ⅛
30¼	15¼	AVX	.24	.8	26	1327	28¾	28½	28¾	
68½	44⅛	AbtLab	1.40	2.1	18	2370	66¼	65½	66⅛	+ ⅛
18¾	12¼	Abitibi g	1			12	12½	12½	12½	– ⅛
13	7½	AcmeC	.40	4.2		22	9¾	9⅝	9⅝	
9¾	5⅝	AcmeE	.32	3.8	17	2	8½	8½	8½	
38½	20¼	Acuson			25	298	37¾	37½	37½	
17⅛	14⅛	AdaEx	2.06e	13.		132	15⅜	15¼	15⅜	
12⅞	8½	Adobe				467	11⅛	10¾	11¼	+ ⅜
19⅜	16½	Adob pf	1.84	9.8		18	19	18⅞	18¾	+ ⅛
21⅝	19⅞	Adob pf	2.40	12.		7	20½	20⅜	20⅜	
10½	7⅛	AMD				674	8	7⅞	7⅞	+ ⅛
35	28½	AMD pf	3	10.		22	30	29⅝	29⅝	– ¼
10⅛	6⅜	Advest	.16	1.8	12	871	8¾	8½	8¾	+ ⅛
62½	46	AetnLf	2.76	4.6	10	3211	60¼	59⅞	60½	+ ⅜
14	11⅞	AhIPb	.22	1.8		707	12½	12⅜	12⅜	
25	15⅝	Ahmans	.88	4.6	10	4606	19⅜	18⅞	19	+ ⅛
4	2⅛	Aileen				71	2⅝	2½	2⅝	
48¾	37¼	AirPrd	1.32	2.9	11	1262	45⅜	45	45⅜	
39⅞	18	AirbFrt	.60	1.6	19	7	37⅞	37¾	37¾	
25⅛	14½	Airgas			12	213	21⅜	20⅞	21⅜	+ ½
20¼	18⅛	Airlease	2.40	12.	11	14	19⅞	19⅝	19⅜	+ ⅛
10¼	8½	AlaP	dpt.87	8.8		452	10⅛	9⅞	9⅞	
99⅞	89¼	AlaP pf	9	9.2		z30	97½	97½	97½	
107	102	AlaP pf	11	10.		z140	107	107	107	+1
102½	93	AlaP pf	9.44	9.3		z50	101⅝	101⅝	101⅝	
89½	80⅞	AlaP pf	8.28	9.4		z230	89½	88½	88½	
30½	19⅛	AlskAir	.20	.9	8	949	22½	21½	22⅛	+ ⅝
23½	14⅜	Albnyln	.35	1.8	12	157	19½	19¼	19½	+ ⅛
53⅜	32¼	Alberto	.36	.8	20	19	45	44½	44½	– ½
41½	24¼	AlbCulA	.36	1.0	16	16	36⅜	36⅛	36⅛	
60¼	32¼	Albtsn	.80	1.4	21	1495	56½	55½	55⅞	– ⅜
25⅛	19¼	Alcan s	1.12	5.2	5	6303	21⅜	21⅛	21½	+ ⅛
36½	23	AlcoStd	.84	2.5	12	178	33⅜	33⅛	33⅛	– ½
[illegible]										

Continued on Page 45

NYSE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous Page										
20⅞	8¼	vjPNH pfE				14	20⅞	20	20⅞	− ⅛
20½	8⅛	vjPNH pfF				1	19¾	19¾	19¾	− ⅞
20	8¼	vjPNH pfG				8	20	19¾	19¾	− ¼
15⅞	10¾	PSvNM .36j				466	14	13⅞	13⅞	
28½	23	PSEG	2.04	7.3	11	3031	28¼	27⅞	28	− ⅛
48¾	40¼	PSEG pf4.08		8.5		z800	u48¾	47¾	48¼	+ ⅝
49½	41¼	PSEG pf4.18		8.8		z100	47¾	47¾	47¾	+ ¼
90	76⅝	PSEG pf7.80		8.8		z250	89	88⅞	88¾	− 1¼
3⅝	2	Publick				4	2¼	2⅛	2⅛	
69½	41⅛	PR Cem	.65e	1.2	7	5	52½	52½	52½	
22⅜	18	PugetP	1.76	8.0	10	1089	22⅛	21¾	22⅛	+ ¼
12⅛	11⅝	PDPI n	1.23	10.		130	12	11⅞	11⅞	
12⅝	12⅛	PDIF n	.11e	.9		66	12⅛	12⅛	12⅛	
8⅛	6¾	PHIGB	.85	12.		146	7¼	7⅛	7¼	+ ⅛
10⅞	9¼	PHYM n	.78	8.2		920	9⅝	9½	9½	
9½	8⅝	PIGIT	1.01	11.		904	9⅛	8⅞	9	
12⅛	11⅞	PIGM n				78	12	11⅞	11⅞	

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
44¼	22¾	XTRA	.72	2.9	7	346	24⅞	24½	24½	− ⅝
33	21¾	XTRA pf1.94		8.7		681	22¼	22	22¼	+ ¼
4¼	2	Zapata				671	2⅜	2¼	2⅜	+ ¼
21½	11½	ZenithE				854	12½	12¼	12¼	− ¼
2½	¼	vjZenLb				2828	5-16	¼	¼	− 1-32
21½	15	ZenNtl	.84	4.6	9	110	18½	18¼	18¼	
10	6⅞	Zenix	1.20	15.		93	8	7⅞	7⅞	− ⅛
18½	12½	Zero s	.40	2.6	14	89	15⅛	15	15⅛	
44¼	25⅛	Zurnin	.76	1.9	18	137	39¾	39⅛	39⅛	− ⅛
12⅞	10	Zweig	1.12a	9.3		518	12⅜	12	12	− ⅛
10	8¾	ZweigTl	.98	9.8		1249	9⅝	9⅝	9⅝	+ ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

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AMEX COMPOSITE PRICES

4pm prices November 17

NASDAQ NATIONAL MARKET

4pm prices November 17

Stock	Div.	Sales 100s	High	Low	Last	Chng
XOMA		1243	21½	20½	21¼	+ ¼
Xicor	7	1686	3⅝	3⅝	3⅝	− ⅛
YanEnS	.38e	1255	20¾	20⅛	20¾	+ ½
YelowF	.78 11	249	25⅛	25⅛	25⅛	− ⅛
YorkRs		812	7½	6¾	7½	+ ½
ZionUt	1.44	313	30¾	30	30	

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FINANCIAL TIMES

The Business Column

Investment openings for the brave

The sale last week of Hungary's Tungsram light bulb producer to General Electric of the US, coupled with the offer by Mr Lech Walesa of 80 per cent of Polish industry to the West, prompts the question: what in eastern Europe is worth buying?

Quite a lot, on one view. Hungary has the Taurus tyre company and the Ikarus bus plant which are more efficient than most, and which export beyond Comecon. Czechoslovakia has in Skoda a car manufacturer which probably produces the best cars in the eastern bloc. Though unprofitable, it is currently the object of western offers for co-production deals. Poland's Gdansk shipyard is likely to pass soon to the control of Mrs Barbara Piasecka-Johnson, the US millionaire. She is confident it can compete.

These are only the more obvious cases. There are other real islands of efficiency in eastern Europe which may be candidates for westernisation. But western business has so far been more concerned with the sea which surrounds these islands and the sunken wrecks just below the surface. Labour may be cheap and well trained, but if it is not productive, if the bureaucrats still interfere, if the services do not work and the parts do not arrive, so what? Worse, if you cannot be sure of getting money out, forget it.

Skewed economies

This view is becoming more wrong with every passing day, but it is not foolish. East Europe's economies have been systematically underdeveloped by being skewed to the East, forced to specialise in Comecon's division of labour, made to serve economies – especially the Soviet one – which continually confirmed their backwardness and hampered their technological development. As the West and Far East have undergone the successive processes of computerisation, managerial restructuring and internationalisation, so east European economic crises have deepened until, in the mid 1980s, they were too mired in overlapping problems to solve them without outside aid. They are thus gasping for structural investment and even the most efficient – East Germany and Czechoslovakia – report terrible shortages, debts and losses.

It is thus very difficult to "pick winners" when the best run companies are continually submerged by mixtures of inefficiencies and interference; when the most ambitious and dedicated managers are constantly being reminded that it is hardly worth the candle; when the Plan does not work (or has ceased to exist) and the market does not function. If there is a common spirit among east European managers now, it is probably defensiveness. One Yugoslav economic reformer told me recently that, when running pioneering training courses for senior executives, the crucial thing was to get them to admit they were ignorant. Once that had been done, they could start to learn something about the rules of the new game.

Points to consider

Here is more than enough to keep the western entrepreneur at bay. The brave ought to consider these questions:

- Has the enterprise got a pre-war history? If it does, it is likely to have retained some elements of a business culture which can be built on.
- Does it have some advantage in supplies of raw materials? Polish furniture plants can usually rely on wood.
- How able is its management? They vary at least as widely as in the west. At worst, they are nothing but Party appointees. At best, they are competent individuals who are concerned to do a good job.

Western businessmen who decide to make deals with eastern enterprises may take comfort from the consideration that economic and political liberalisation in eastern Europe (outside the Soviet Union) is likely to be irreversible. Managers are anxious to learn new ways of doing things. Investment in Eastern Europe will necessarily be a hard-headed business. But one no longer has to be merely an idealist or a fool to try it.

John Lloyd

THE MONDAY INTERVIEW

Leader of a tumultuous transition

Roh Tae Woo, President of South Korea, talks to **Maggie Ford**

President Roh Tae Woo of South Korea, who begins a visit to Britain next week as part of a European tour, likes to regard himself as a feminist.

"Culture and tradition have inhibited women from participating in Korean society," he says. "Where they have taken part, they have been successful, and this is important for Korea's future development. Restrictive laws should be amended in accordance with women's wishes."

The nascent South Korean women's movement is but one of a vast range of interest groups loudly demanding social, political and economic change since Mr Roh was elected to the presidency in 1987.

He is the leader of one of the most Confucian countries in Asia, and a man with 15 years experience in the military. But that does not mean that he cannot contemplate change.

The 1987 election was a four-cornered fight, narrowly won by Mr Roh with 36 per cent of the vote. It followed nation-wide demonstrations in June that year demanding democracy and an end to the rule of Mr Roh's predecessor and military colleague, Chun Doo Hwan.

The transition from authoritarianism to democracy is not proving simple. "Change has been rapid and tumultuous, with pent up demand erupting in all sectors," the President says.

"But we have seen progress in freedom of speech, of assembly and of democratic participation. People are becoming more confident of their ability to run a democratic society."

Mr Roh decided to set an example of his new Korean leadership style by starting at home. The presidential mansion, known as the Blue House, formerly resembled an armed camp, ringed by security guards with guns and electronic security devices.

Now the visitor may drive up to the office section, which is open to the public, and on to the mansion through no more security than would surround the leader of most democratic countries. Mr Roh has also dispensed with many of the personal staff who surrounded his predecessor.

Relaxed and confident, the President is looking forward to his European tour, during which he will visit West Germany, France and Hungary as well as Britain. The combination of the planned single European market in 1992 and recent events in eastern Europe has captured attention in South Korea, itself divided by cold war politics since the Second World War.

Mr Roh wants to enhance friendly ties with old allies and to try to project a more accurate picture of his country, its economic and trade policies, its political and strategic attitudes and his vision of its future. He particularly wishes to dispel the idea prevalent in Europe that Korea is a second Japan.

Noting that the two countries are geographically close and have both developed through export-led strategies, he points out that Korea was a victim of pre-war Japanese colonialism. "Korea and Japan are fundamentally different in terms of historic background, national character, economic and social structure and response to external issues," he says. "Not only I, myself, but any Korean in the street will avow that Korea will never be a second Japan."

The President believes that western countries have not fully understood South Korea's commitment to free trade and its speedy movement to open its markets, much faster than other developing countries.

"South Korea is determined to open up its economy, not only for foreign goods, but also services," he says. "We are trying to make it easier for foreigners to set up businesses in South Korea."

"I intend to advertise to European business leaders during my trip the fact that Korea is open to foreigners and needs and desires more active co-operation with the outside world."

Europe is regarded as South Korea's best potential partner, particularly in the area of high technology, in redressing the country's heavy concentration of trade relations on the US and Japan.

Mr Roh notes that this concentration has created trade friction, especially with the US. South Korea is therefore keen to diversify its trading links, especially towards eastern and western Europe to create a better balance.

The South Korean economy is going through a process of transition, he says, with the aim of liberalisation of markets, along with internationalisation and specialisation of industry.

Although the President does not expect a return to the years of very high-speed growth, he is confident that business and workers will be able to cope with the problems of currency appreciation and labour disputes which have hit competitiveness.

"We are still a developing country," he says. "But we are making efforts to promote international economic co-operation with top priority placed on mutual benefits and common prosperity."

During his tour President Roh will be unable to visit Berlin, where the crumbling of the wall has a deep symbolic meaning for Koreans. But his trip to Hungary, the first communist country to recognise South Korea, signals the success of his "Nordpolitik" policy. Modelled after West Germany's "Ostpolitik," introduced by Chancellor Willy Brandt in the 1970s, the new policy is designed to pave the way for rapprochement with communist North Korea.

The policy has so far also resulted in diplomatic relations with Poland and economic links with the Soviet Union, China and many east European countries. "We aim to encourage North Korea to change its policy towards us through their own efforts, not by force," he says. "We want a lasting peace on the peninsula, leading to peaceful reunification."

So far there has been little response from Pyongyang but the President welcomes efforts by European countries to develop economic links with the North.

An important objective of the Nordpolitik policy is to encourage North Korea to step on to the path of reconciliation and co-operation, thereby stabilising the region and easing tension on the Korean peninsula, with a goal of Korean reunification at an early date.

"The policies of reform and openness sweeping eastern Europe and the closer links between East and West are expected to have no small impact on the situation in east Asia," the President says.

Upon his return from Europe President Roh is likely to face a difficult domestic political situation over the method of dealing with the misdeeds committed by his predecessor, Chun Doo Hwan. Mr Chun is at present in exile in a remote Buddhist monastery. Opposition leaders have demanded that he testify before the National Assembly and that several other key members of the former regime should resign their present posts.

Efforts by President Roh to negotiate a settlement have caused a serious political row within his own party and he faces calls for a referendum on his rule next spring if the matter is not cleared up.

"We have already met some of the Opposition's demands," the President Roh says, "including the prosecution of many members of the Chun family. Many people feel we need a clean break with the past, but the past, present and future are all entwined. I aim however to correct these wrongdoings within the next two or three months."

The Opposition has also demanded the repeal of the National Security law, under which several people have been jailed for visiting North Korea, and which has been used to indict Opposition leader, Kim Dae Jung.

"It is truly unfortunate that Mr Kim has been indicted," President Roh says. "The law has been enacted to deal with the grave security situation facing the country. But the law must not contain clauses which unjustly restrict the liberty of our citizens. This matter is expected to be debated vigorously soon at the National Assembly."

While in Europe the President will visit Switzerland, a country he knows well from attending Olympic Committee meetings when he was Sports Minister and head of the Seoul Olympic Organising Committee in advance of the 1988 Summer Games.

The Olympics gave Mr Roh the best moment of his presidency so far. This was not just because of their outstanding success, but also because the Korean people took part and enjoyed themselves, he says. From the moment Seoul won the right to stage the 1988 Games, public criticism of the idea was strong. The Games were denounced as a wasteful extravagance in a relatively poor country, and an attempt to divert people's attention away from political opposition to the regime then in power.

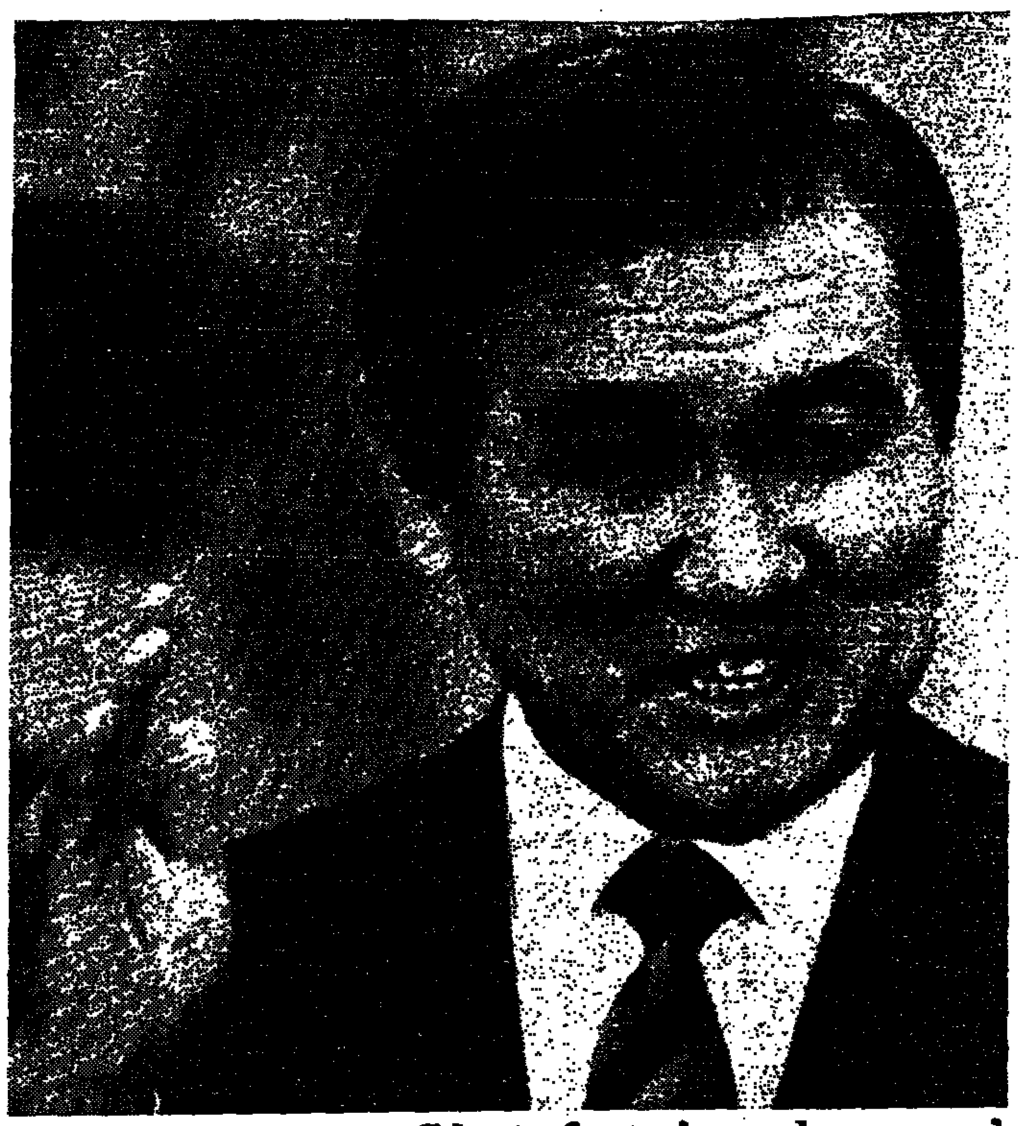
"I was very pleased to see that by the time the Games were held, the people felt free and democratic enough to take part voluntarily." President Roh says.

He would like to be remembered, after he steps down from the presidency in 1992, as a man who ushered in an era of ordinary people. "I want Koreans to feel free to live prosperous lives in a democratic country with social welfare assured, and preferably on the way to peaceful reunification," he says.

And who will win the next election? "The party which offers the people the most opportunities for democracy, behaves in the most honest fashion and causes the least trouble!"

PERSONAL FILE

- **1932:** Born in Taegu, educated Kyongbuk High School and Korean Military Academy
- **1956:** Platoon commander
- **1981:** Retired as four-star general; Minister of State National Security and Foreign Affairs
- **1982:** Home Minister
- **1983:** President Olympic Organising Committee
- **1985:** Member National Assembly; chairman of ruling party
- **1987:** elected President



'People are more confident of running a democracy'

Need for a review of the jury trial system

JUSTINIAN

The officially rejected proposal of the Roskill Committee on Fraud Trials that serious fraud cases should in future be tried not by juries but by a professionally composed tribunal is now firmly back on the politico-legal agenda. The criminal proceedings which began on November 9 with the arrest of 11 people in connection with the County NatWest/Blue Arrow affair is a sharp reminder that that case follows hard on the heels of other major fraud prosecutions.

The pre-trial hearing of the Guinness case, which involves 117 charges and 25,000 documents, is currently before Mr Justice Henry – being heard behind closed doors. Secrecy is imposed by the operation of recent legislation which has dispensed with preliminary "committal" proceedings before examining magistrates in favour of a pre-trial hearing by a judge, when the defence can raise legal issues in order to limit the scope of, or even defeat, the prosecution case before it has been sent for trial by jury. The trial arising out of the Barlow Clowes collapse will be proceeding in parallel to Guinness. All three cases will take an inordinate amount of time to try; inevitably they involve examination of complex transactions; and they will all be expensive.

If this prospect of prolixity in the criminal process were unusual, the revival of the Roskill formula would not be so pressing. But the cognoscenti among judges, lawyers, officers in the Serious Fraud Office and investigators among the police are convinced that the problem of fraud trials will grow and not diminish. They are beginning to think that the recent reforms of criminal procedure will not suffice to stem the rising tide of difficult fraud trials.

The Economist in its current issue, while stoutly defending the jury system for trying all those accused of fraud, both large and small, calls for changes in the conduct of financial trials. This august journal does not think that jury-abolitionists have made a credible case for treating fraud differently from other crimes. But if the changes now being proposed additional to the recent reforms are unlikely to alleviate the situation, jury-abolition must be the most obvious alternative, at least for a serious fraud trial á la Roskill.

Prosecutors are urged to slim down the scope of a fraud trial by limiting the number of defendants and reducing the number of charges. The fact is that prosecutors do not need much encouragement in that regard. Prosecutors are keenly aware of the need to reduce their case to as simple terms as can be properly made. But there is an irreducible minimum to what can be achieved. Indeed, the drive towards simplicity may actually lead to the obscuring of the essential fraudulent conduct, simply because to reveal all that is necessary means to unravel some knotty transactions.

There is always the problem of how wide the net should be thrown. Fringe participants in a fraudulent enterprise do often escape the criminal process because their inclusion among the defendants in the dock overloads the task of the jury which has to look at the evidence in relation to each defendant separately. It is for that very reason that the Guinness trial is scheduled to be tried in two stages, with only one common defendant.

The Economist argues for a lengthening of the four and a half to five hour working day of judges. Although it is not mentioned that such a reform would have to include the jurors sitting for the same hours, that would be the inevitable corollary. Anyone who has had the slightest experience of a day in court will know how exacting is the process of listening attentively and absorbing the content of evidence. Any longer day would soon evoke the cry that justice was being sacrificed at the altar of a speedier process.

The problem lies essentially in one facet of the trial process. There is little doubt that criminal trials take much longer than they used to. The inexorable tendency to prolixity was identified by the Roskill Committee as relating to counsel's examination and cross examination of witnesses. The Committee noted that complaints about this had evoked little response. The response would be forthcoming if the tribunal was composed of professionals able to indicate to counsel their immediate understanding of a point being made in the course of the proceedings. The inevitable muteness of jurors means that the advocate must be allowed to press his client's case through the mouths of witnesses repeatedly, for fear that the jury may be receptive only to something said several times over.

A jury is not permitted to speak out during the proceedings that it has heard enough. And no judge can interrupt counsel for fear that there will be accusations of bias or excessive interference with the flow of cross examination. Trial by judge alone (or with two professional assessors) would at a stroke reduce the scale of examination and cross examination of witnesses by counsel. It would thus provide the one single method of substantially curtailing the length of trials. The lone dissenter of the Roskill Committee, Mr Walter Merricks (now public relations officer at the Law Society), said that if such a fundamental feature of English criminal justice as jury trial was to be reviewed, the review should be a comprehensive one and not confined to the narrow band of an indefinable class of fraud cases. Such a review is now ripe.

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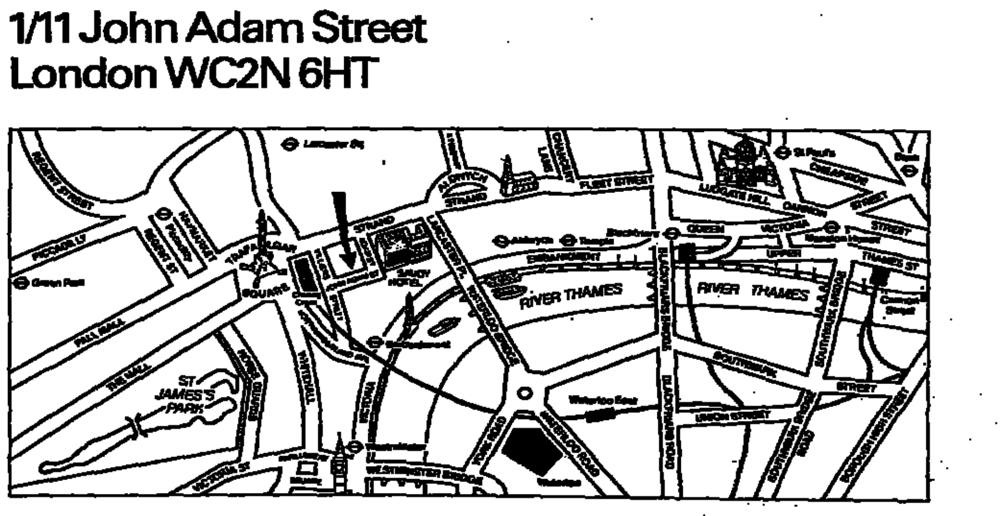

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Other Investment Banking units and London Branch will be moving to The Adelphi later in November 1989.

Concurrently with the withdrawal of counter facilities at our 7 Princes Street office on Monday 27th November 1989, a City Settlements Office will be opened on the 2nd Floor at No. 1 Broadgate, London EC2M 7HA, Tel: 01-256 4471, for the acceptance and collection of non-cash items.

November, 1989

Member of TSA